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TO: Certifying Officers of Higher Education Institutions and State Agencies

FROM: New Jersey Division of Pensions and Benefits (NJDPB)
New Jersey State Employees Deferred Compensation Plan (NJSEDCP)

SUBJECT: Secure 2.0 Roth Catch-Up Provision

The SECURE 2.0 Act (“Act”), passed by Congress and signed into law in 2022, introduces a mandatory Roth treatment for age-based catch-up contributions for certain higher-income participants in employer-sponsored retirement plans, mandatory for taxable years beginning **January 1, 2026**. The mandate was originally set to begin for calendar year 2024 but postponed by the IRS to allow employers and recordkeepers more time to implement the necessary administrative systems. Plan sponsors must comply in good faith starting in 2026, and the final regulations' strict compliance date is January 1, 2027.

The New Jersey Division of Pensions & Benefits (NJDPB) is required to apply this federal law to the New Jersey State Employees Deferred Compensation Plan (NJSEDCP) (457(b) plan) (“Plan”). Employers with employees that participate or are eligible to participate in this Plan and who contribute to Social Security must be in compliance with the Act.

The rule applies to participants in NJSEDCP who are age 50 or older **and** whose wages (specifically, FICA wages in box 3 of the W-2 form) equaled or exceeded **\$150,000** in the prior calendar year **and** who intend to make additional contributions above the IRS limits, which would be for the age 50+ catch-up and the newly adopted super age catch-up (age 60-63 catch-up). The annual threshold for future years will be indexed for inflation by the IRS. Employer payrolls will need to monitor this threshold annually. The Roth catch-up provision will **not** apply to the 3-year catch-up election by a participant. **IMPORTANT: If the employee does not contribute to Social Security, then the employee is not required to make the age-based catch-up on a Roth basis.**

The Plan currently allows employees over age 50 to automatically (deemed election) make catch-up contributions once they cross the limit for the regular contributions. There are no elections required by the member. The same will apply to the new Roth catch-up provision. Payroll providers/payroll departments or third-party administrators that provide payroll services must change impacted participants' deferral deductions and remittance information from pretax to Roth when the applicable deferral limit is reached. If a qualified employee does not wish to have the catch-up contributions as Roth, the only option is for the employee to elect to have the deduction cease. The option to make pre-tax (traditional) age catch-up contributions is eliminated for this group.

The standard contribution limit for 2026 is \$24,500, the age 50+ catch-up is an additional \$8,000, and the super age catch-up (age 60-63) is an additional \$11,250.

The NJDPB recommends each employer process a report in January 2026 to reflect a list of employees that had FICA wages of \$150,000 or more in 2025 and who will attain age 50 or higher in 2026 to determine the number of employees that will meet the Roth catch-up provision. We recommend this list be provided to Empower to assist in catching errors that may occur during the payroll process. Attached is an Excel spreadsheet supplied by Empower for each employer to complete. The first tab is for the data required for the list of qualified employees that would meet this provision. The second tab provides instructions on how to complete and submit the spreadsheet. Please contact Empower directly if you have any questions regarding this spreadsheet.

We recommend employers inform employees who currently participate in NJSEDCP and meet the criteria regarding the requirement that all age-based catch-up contributions must be made on a Roth basis. A notification should also be provided to employees that enroll into the Plan and meet the required criteria for mandatory Roth contributions. Below is a sample message to be used as a guideline.

This is to inform you that any additional contributions made this year to your NJSEDCP account above the standard limit allowed by the IRS must be Roth contributions (after-tax). A new Internal Revenue Code provision mandates an employee whose FICA wages are \$150,000 or higher in 2025 to make age 50+ catch-up contributions or super age catch-up contributions (age 60 to 63) in 2026 as Roth contributions. You can terminate your contributions if you do not wish to have contributions above the standard contribution limit (\$24,500 for 2026) as Roth contributions. This requirement does not directly apply to the 3-year catch-up election.

The following information is for employees exempt from this requirement:

- Does not apply to new hires or transfers from other employers;
- Does not apply if employee earns FICA wages of \$150,000 or more in the current tax year and FICA wages were under \$150,000 in the previous year (although this requirement may apply in future years); and
- Does not apply to employees that attain 49 years of age or less in the current tax year.

The following are common sample scenarios you may experience:

Scenario #1: A current employee turning age 50 in 2026 has \$155,000 in FICA wages in 2025. The 2026 annual salary is \$148,000, or \$5,692 biweekly (26 pays). Employee contributes 20 percent per pay to NJSEDCP and made no Roth elections.

Payroll processing: The employee would make tax-deferred contributions and reach the standard limit in pay period #22. The additional age 50+ catch-up contributions would be received as Roth contributions once the standard limit of \$24,500 is reached.

Note: Payroll staff and/or programmers will need to determine what the system is capable of processing – for example, can the location's payroll system handle the adjustment in the same check, or will the standard contributions stop at the cap limit in one check and the Roth contributions start in the next check?

Scenario #2: Same as Scenario #1, except employee makes a 15 percent contribution as Roth & 5 percent as tax deferred.

Payroll processing: The combination of contributions will reach the standard limit in pay period #22 and the additional age 50+ catch-up contributions would be recorded as Roth contributions. The Roth contributions cannot be predetermined as age 50+ contributions prior to reaching the standard limit. You must use the combination of both Roth and tax-deferred contributions to determine the standard contributions up to the limit amount.

Scenario #3: Same as Scenario #1, but member enrolls as a new participant in the Plan at any point in 2026.

Payroll processing: The employee would make tax-deferred contributions until the person reaches the standard limit of \$24,500. The additional age 50+ catch-up contributions would be recorded as Roth contributions.

Scenario #4: Same as scenario #1, except employee's annual salary for 2026 is \$175,000, and contributions are 10 percent per pay.

Payroll processing: The Roth catch-up provision will not apply to this employee since the employee will not contribute beyond the standard limit.

Scenario #5: Employee was hired on July 1, 2025, at age 60, with annual salary of \$250,000, and contributes 25 percent to NJSEDCP.

Payroll processing: It will depend on the FICA wages reported for this employee in 2025. It is likely the FICA wages would be under \$150,000 assuming the employee only received half of the annual base salary and there was no other form of income (bonuses, overtime). If the 2025 FICA wages are under \$150,000, then the Roth catch-up provision will not apply to this employee.

Scenario #6: A new employee is hired January 1, 2026, at age 55, with annual salary of \$200,000, and contributes 20 percent to NJSEDCP.

Payroll processing: The Roth catch-up provision will not apply to this employee since the employer does not have FICA wage information from the previous year.

Fact sheets for this plan will be updated with the Roth catch-up provision and each following year will reflect the minimum salary threshold for this provision.

If you have any questions regarding this subject, please email njisedcp@treas.nj.gov