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Plan Sponsor Quarterly Update

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SPRING EDITION 2026

What's New In Washington: First Quarter 2026 Benefits Update

The first quarter of 2026 did not produce any sweeping retirement plan law, but it did bring several developments that plan sponsors should act on now. In practical terms, Q1 2026 was mostly an implementation quarter: sponsors needed to align plan administration, participant communications, and payroll practices with updated IRS and DOL guidance.

The IRS's 2026 limit guidance is now operational. For 2026, the 402(g) elective deferral limit increased to $24,500, the general 414(v) catch-up limit increased to $8,000, and the higher catch-up limit for participants ages 60 through 63 remained $11,250. The 415(c) annual addition limit increased to $72,000, the 401(a)(17) compensation limit increased to $360,000, the top-heavy key employee threshold increased to $235,000, and the 2025 wage threshold used to determine whether 2026 catch-up contributions must be Roth increased to $150,000. For sponsors, that means payroll systems, election materials, and testing assumptions all need to reflect the new limits.

On January 15, 2026, Treasury and the IRS issued Notice 2026-13, which provides new 402(f) safe-harbor explanations for eligible rollover distributions. The IRS noted that the updated explanations reflect post-2020 changes in the law, including changes relating to the 10% additional tax on early withdrawals and required minimum distribution rules. Sponsors using older distribution packets should treat this as a prompt to refresh forms and online workflows.

While most sponsors should now be operating in compliance with the Roth catch-up rules because the statutory rule is in effect for 2026, sponsors should also prepare for the new final regulations on Roth catch-up contributions to go into effect next year. As a reminder, catch-up contributions made on behalf of participants whose prior-year FICA wages from the employer exceeded an indexed threshold (see above) must be designated Roth contributions.

The end of the quarter brought an important development on alternative assets in defined contribution plans. On March 30, 2026, the Department of Labor proposed a regulation addressing fiduciary duties in selecting designated investment alternatives for participant-directed individual account plans, including funds that include alternative assets. The proposal is process-based guidance, not an endorsement of any particular investment type. For sponsors, the practical takeaway is that whether selecting alternative assets or other investments, fiduciaries need to conduct a careful analysis of fees, valuation, liquidity, diversification, and participant fit before making any change.

Best Practices:
Refreshing Your Distribution Packet

Distribution paperwork is easy to ignore until something goes wrong. But the IRS's January 2026 release of new safe harbor explanations for eligible rollover distributions is a good reminder that stale forms can create avoidable compliance problems. Notice 2026-13 supersedes the Section 402(f) safe harbor rollover explanations many plan sponsors and vendors have relied on for years, and it does so because the old models in Notice 2020-62 no longer fully reflect the law after SECURE 2.0 and related changes.

A good first step for plan sponsors is to determine each place your rollover explanation appears. That usually means more than a paper distribution packet. It can include websites, online distribution elections, call-center scripts, automatic cash-out materials, and template emails used by HR or recordkeeping teams. Sponsors should also confirm that they are using the right version for Roth and non-Roth money, because Notice 2026-13 provides separate safe harbor explanations for each.

Next, consider using the notice refresh as a broader quality-control exercise. For example, confirm that your materials properly describe current required minimum distribution rules, the treatment of designated Roth accounts, applicable withholding rules, any plan-specific cash-out provisions, and available distribution options. Because the IRS expressly notes that plan administrators may customize the safe harbor explanations, this is also a good opportunity to remove any inapplicable provisions and make the packet more usable for participants, while preserving legal accuracy.

Finally, consider documenting the update in your plan files. Keep a record of when the notice package was revised, which forms were replaced, which vendors were involved, and how staff were trained. That kind of basic version control is often overlooked, but it can be invaluable if a participant later claims they received inaccurate distribution information. The goal is not simply to have a technically correct notice somewhere in the system. The goal is to make sure the correct notice is the one actually being used every time a distribution occurs.

In short, 2026 is an excellent year for plan sponsors to treat distribution notices as an operational best-practices project rather than a static form. A relatively modest review now can reduce participant confusion, improve administrative consistency, and lower the risk of discovering outdated rollover language only after a complaint or audit.

Hot Topic:
Alternative Investments in 401(k) Plans

For some time, alternative investments in 401(k) plans have been more a theoretical discussion than a practical option for plan sponsors. That may soon change. At the end of the first quarter of 2026, the Department of Labor issued a proposed rule addressing fiduciary duties in selecting designated investment alternatives for participant-directed individual account plans, including asset allocation funds that include alternative assets. The proposal does not say that alternative investments are automatically prudent, but it does move the conversation from "never" to "show your work."

Importantly, the proposed rule is not limited to private equity or other alternative assets. It is framed as a broader prudence regulation for designated investment alternatives generally, while expressly addressing funds that include alternative assets, such as private company investments, real estate, digital assets, and commodities. The DOL describes a process-based safe harbor built around consideration of six primary factors: performance, fees, liquidity, valuation, benchmarks, and complexity. In other words, the government is not blessing a particular product. Instead, the proposed rule emphasizes that fiduciaries must follow a careful process.

While it applies to investment selection generally, that process-based focus is especially important for alternative assets because it addresses issues that have made sponsors cautious for years, including limited liquidity, more complex fee structures, harder valuation questions, and the need for meaningful benchmarking against comparable strategies. The proposal addresses those concerns by providing specific discussion of liquidity programs, independent valuation processes, appropriate comparators, and whether a fiduciary has sufficient expertise to understand an investment product or needs outside help.

What should plan sponsors do now? Appropriate steps might include:

- Reviewing plan documents and investment policy statements to determine whether they are flexible enough to address more complex asset classes.
- Identifying who would evaluate issues such as valuation methodology, liquidity, benchmark selection, and participant communications.
- Considering whether including alternative investments is feasible/desirable for your plan based on its size, committee structure, and adviser support.

The proposal may reduce some perceived barriers, but it does not reduce the fiduciary standard under ERISA section 404(a)(1)(B). For most sponsors, the right takeaway is not "rush in," but rather "prepare carefully."

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