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## MARKET UPDATE | Solid September Ends with Government Shutdown

Following the much-anticipated Federal Reserve rate cut on September 17th, equity markets surged during the month. The S&P 500 posted its fifth consecutive monthly gain, tacking on an impressive 3.7%, and finishing the third quarter up over 8%, while the Dow Jones Industrial Average (DJIA) gained 2.0% in September and 5.7% in the third quarter. Technology stocks continued to lead the way, sending the tech-heavy NASDAQ index up 5.7% in September. Even more impressive is the fact that the index is up over 11.4% in the third quarter. International markets also continued to post solid gains, with the MSCI EAFE Index adding 2.0% in the month while emerging markets jumped an impressive 7.2%. On the fixed income front, longer-term bond yields such as the 10-Year Treasury fell during the month, sending bond prices higher. The Bloomberg Aggregate Index was up 1.1% in September and has gained over 2% in the third quarter.

Market Return Indexes	Sept 2025	Q3 2025	YTD 2025
Dow Jones Industrial Average	2.0%	5.7%	10.5%
S&P 500	3.7%	8.1%	14.8%
NASDAQ (price change)	5.7%	11.4%	17.9%
MSCI Eur. Australasia Far East (EAFE)	2.0%	4.8%	25.7%
MSCI Emerging Markets	7.2%	11.0%	28.2%
Bloomberg High Yield	0.8%	2.5%	7.2%
Bloomberg U.S. Aggregate Bond	1.1%	2.0%	6.1%
Yield Data (Month End)	Sept 2025	Aug 2025	July 2025
U.S. 10-Year Treasury Yield	4.16%	4.23%	4.37%

The Commerce Department revised second quarter GDP growth to an annualized 3.8%, up from the earlier estimate of 3.3%, further easing recession fears. The revision was driven in large part by stronger-than-expected consumer spending and a drop in imports. While the data was encouraging in the short term, many analysts believe

there may be significant deceleration going forward in part due to higher prices and a softening labor market. Regarding prices, the Federal Reserve's preferred inflation gauge, Personal Consumption Expenditures (PCE), accelerated slightly in August from a year earlier. The PCE index tries to account for changes in how people shop when inflation rises and can capture, for example, when consumers switch from more expensive brands to cheaper store brands. This behavior, known as the "substitution effect", is a key reason why the Federal Reserve prefers the PCE price index over the Consumer Price Index (CPI) when assessing inflation. The Commerce Department announced that the PCE price index was up 2.7% in August from a year earlier, which was a bit higher than the 2.6% year-over-year increase in July and the most since February. Core PCE, which excludes the volatile food and energy components, showed a 2.9% increase in prices from August 2024, matching the increase seen in July. While the data wasn't grossly higher than expected, it proved that inflation data remains sticky.



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As for the labor market, weakness persists, as the average monthly nonfarm payroll gains have shrunk to approximately 29,000 with the unemployment rate climbing to 4.3%, its highest rate since 2021. Just 22,000 jobs were added in August, a far cry from the 76,500 expected by economists. Moreover, the August data showed a revision to June's numbers indicating that the economy actually lost 13,000 jobs during the month, which was the first negative job growth number in nearly four years.

The Federal Reserve has a dual mandate of full employment and stable prices (inflation data). While inflation has not yet cooled to the Fed's target of 2%, the unemployment figures for August ticked higher while job gains stalled. While the Fed grapples with sticky inflation data and a weakening job market, they are essentially caught between a rock and a hard place. On the one hand, the inflation data would preclude them from cutting rates, especially as the effects of President Trump's tariffs have largely yet to be felt but are likely on the way. On the other hand, the softening job market calls for a rate cut. In the end, the Fed went ahead and reduced the federal funds rate on September 17th for the first time this year, cutting the rate by 25 basis points to a range of 4.00% to 4.25%, in line with Wall Street expectations. Markets expect two more rate cuts by the end of 2025 and one more in 2026, with forecasts suggesting a target federal funds rate of around 3.6% by the end of 2025 and 3.4% by the end of 2026.

**The looming government shutdown came to fruition Wednesday morning (October 1st) at 12:01 a.m. ET.**

The lack of progress and talk from federal agencies about how they would furlough workers during a stoppage made it more likely that we would see the first government shutdown since 2019, as Democrats and Republicans remained at a standstill on health care spending and a funding extension. The shutdown will mean there will be a delay in the release of economic data, including September's non-farm payrolls, which would have been influential to the Federal Reserve's next meeting in late October. If the shutdown persists, it could raise concern about the credit quality of U.S. debt which could hit Treasury prices and send yields higher.



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While markets finally received the rate cut they were looking for in September, with the expectation of two more to come by year end, relative uneasiness seems to loom. A government shutdown has occurred, inflation remains sticky, and a weakening labor market tainted the month, while tariffs, political divisiveness and global tensions remain. What's to come in the fourth quarter remains to be seen, but whatever the results might be in the end, the path to that result seems to be quite rocky.

On September 15, 2025, the Internal Revenue Service ("IRS") released the much-anticipated final regulations addressing the new Roth catch-up contribution rule enacted as part of the SECURE 2.0 Act ("SECURE 2.0"). SECURE 2.0 amended the Internal Revenue Code to require age 50+ catch-up contributions made by participants who earned more than \$150,000 (for 2026) in FICA wages be made on a Roth (after-tax) basis (the "Roth catch-up requirement"). The IRS had previously published proposed regulations in January of 2025. The final regulations address many of the comments and key questions that were raised to the proposed regulations and provide final guidance that employers may rely on in implementing the Roth catch-up requirement. In this article, we will provide a general overview of the Roth catch-up requirements and provide a review of some of the most impactful changes from the proposed to the final regulations.

## ✓ When does the Roth catch-up requirement apply?

The final regulations did not delay the effective date or extend the administrative transition period. Non-collectively bargained single employer plans must operate in compliance with the Roth catch-up requirement for all taxable years beginning on and after January 1, 2026. There has been some confusion as to the applicability date of the regulations and Roth catch-up requirements as the final regulations do not take effect until January 1, 2027 or later for governmental and collectively bargained plans. During the transition period (January 1, 2026-January 1, 2027), plans are required to operate under a reasonable, good faith interpretation of the statute. Compliance with the final regulations is deemed to be a reasonable, good-faith interpretation of the statute.

## ✓ Who does the Roth catch-up requirement apply to?

The Roth catch-up requirement applies to age 50+ catch-up eligible participants who in the preceding calendar year had FICA wages from the employer sponsoring the Plan that exceeded the applicable Roth catch-up wage threshold of \$150,000 (subject to cost of living adjustments). The Roth catch-up contribution does not apply to special catch-up contributions that may be made under 403(b) and governmental 457(b) Plans.

For purposes of determining FICA wages, "employer" generally means the participant's common law employer

and does not include other entities in a controlled group of companies. As such, if a participant moves to a separate employer, even within the same controlled group, the high earner status will not follow them to the new employer. The final regulations do, however, give an employer the option to aggregate wages between separate common law employers if they are a part of a controlled group or utilize a common paymaster arrangement.

## ✓ How do you determine wages for purposes of the Roth catch-up requirement?

Whether a participant is subject to the Roth catch-up rule is based on the participant's FICA wages (reported on Box 3 of the Form w-2) in the prior calendar year. If a participant receives only self-employment income or is a state or local government employee that does not participate in Social Security he or she will not be subject to the Roth catch-up rule. Additionally, as stated above only wages from the employer sponsoring the plan are considered unless the employer chooses to aggregate compensation between all members of a controlled group. For example, if a participant worked for two employers in a controlled group in a given year, Employer A from January to June and Employer B from July to December, and continues to be employed by Employer B in the following year, only FICA wages from Employer B in the prior year would be considered in determining whether the participant met the Roth catch-up wage threshold. Under the final regulations the employer could affirmatively choose to aggregate compensation between all employers in the controlled group.

## ✓ Is a plan required to offer Roth contributions?

No, a plan is not required to offer a qualified Roth contribution program. If a plan does not provide for Roth contributions generally, then a catch-up eligible participant who is subject to the Roth catch-up requirements would not be permitted to make any catch-up contributions. Those not subject to the rule would still be permitted to make catch-up contributions on a pre-tax basis. If a plan does permit Roth contributions generally, it must make catch-up contributions available to every catch-up eligible participant, may not limit catch-up contributions to individuals below the Roth catch-up contribution wage threshold, or require all catch-up contributions be made on a Roth basis.

## ✔ What administrative options does a employer have in implementing Roth catch-up elections?

An employer may either require a separate election for catch-up contributions or implement a "deemed election" approach. Under the deemed election approach participants who have met the Roth catch-up threshold are automatically treated as having elected Roth contributions for catch-up contributions. To utilize the deemed election approach, the plan must provide any affected participants an opportunity to make a new election (such as ceasing making any additional contributions).

The final regulations did provide useful additional guidance on the deemed Roth catch-up elections including that if a plan utilizes the deemed Roth election, the plan may track either all elective deferrals (both pre-tax and Roth contributions) or only pre-tax contributions to determine when the limit is met and the deemed Roth election takes effect. Further, if a participant has made Roth contributions prior to reaching the normal deferral limit, the plan may take those prior Roth contributions into account in determining whether future contributions must be made on a Roth basis.

## ✔ What correction methods do the final regulations provide?

A plan may always distribute pre-tax catch-up contributions that should have been made as Roth as excess contributions. The regulations do provide two additional correction methods, the W-2 correction method and the in-plan rollover correction method. To take advantage of the additional regulatory correction methods, the plan must utilize the "deemed election" approach to Roth catch-up contributions. The final regulations also confirmed that if a plan utilizes either of the correction methods listed above, it must utilize the same method for all similarly situated participants in a given plan year.

- **W-2 Correction:** A plan may correct a Roth catch-up contribution failure by transferring the catch-up contributions (adjusted for earnings and losses) from a participant's pre-tax account to the participant's Roth account and report the contributions (not adjusted for earnings and losses) as a Roth deferral on the participants Form W-2. This correction method may only be used if the participant's W-2 for that year has not been filed with the IRS or furnished to the participant.

- **In-Plan Rollover Correction:** A plan may correct a Roth catch-up contribution failure by directly rolling over the elective deferrals that would qualify as a catch-up contribution if they had been contributed on a Roth basis (adjusted for earnings and losses) from the participants pre-tax account to the participant's Roth account. The corrective rollover must be reported on a Form 1099-R. The final regulations did clarify though that a plan is not required to offer all participants a Roth conversion feature to take advantage of the in-plan rollover correction method.

Corrections utilizing either the W-2 or in-plan rollover methods must be completed no later than the end of the taxable year following the year in which the improper contribution was made to the plan.

### Conclusion

The SECURE 2.0 Roth catch-up requirements and the recently published final regulations have broad application to 401(k), 403(b) and governmental 457(b) plans. All employers sponsoring these plans should be working with payroll providers, benefits consultants and other plan service providers to ensure their plan is set up to comply with the Roth catch-up requirements.

USI Consulting Group's experienced team can help answer any questions that you have regarding the Roth catch-up requirements.

## Retirement Resources for You

USI Consulting Group's team of experts is happy to assist employers with all retirement plan compliance matters and changes in the market, including those discussed here, to help you mitigate risk and financial impact to your organization.

To learn more, please contact your local USICG representative, visit our [Contact Us page](#) or reach out to us at [information@usicg.com](mailto:information@usicg.com).

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*An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.*

*The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.*

*The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.*

*The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.*

*Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.*

*The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.*

*The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.*

*The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.*

*The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.*

*The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this time-frame, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment.*

*The higher the yield, the better the economic outlook.*

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