Stoller
COMPLIANCE • SERVICE • VALUE

Client Memorandum

Subject: Upcoming Changes to 401(k) Catch-Up Contributions Effective 2026

Beginning January 1, 2026, new regulations under the SECURE 2.0 Act will change how certain 401(k) catch-up contributions must be made. These updates are important for high-income individuals and may impact retirement and tax planning strategies.

Overview of Key Changes

1. Roth Requirement for Higher-Income Participants
Individuals age 50 and older who earned more than $150,000 in FICA wages in the prior year will be required to make catch-up contributions on a Roth (after-tax) basis. Pre-tax catch-up contributions will no longer be permitted for these participants.

2. Continued Flexibility for Other Participants
Participants earning $150,000 or less may continue to make catch-up contributions on either a pre-tax or Roth basis, depending on plan provisions.

3. Enhanced Catch-Up Contributions (Ages 60–63)
Eligible participants between ages 60 and 63 may be permitted to make higher catch-up contributions, subject to annual IRS limits and plan design.

4. Plan Design Considerations
Employers must offer a Roth contribution option in order for participants subject to the new rule to make catch-up contributions. Plans without a Roth feature may require amendment.

Planning Considerations

- **Tax Impact:** Required Roth catch-up contributions will increase current taxable income relative to pre-tax contributions.
- **Cash Flow:** Participants may experience reduced net pay due to after-tax contribution treatment.
- **Long-Term Strategy:** Roth contributions may provide tax-free income in retirement, which can enhance tax diversification.
- **Coordination Opportunities:** These changes may affect decisions regarding Roth conversions, IRA strategies, and overall retirement income planning.

Next Steps

We recommend reviewing your current retirement contribution strategy in light of these changes. Planning ahead for 2026 may help optimize tax outcomes and align your savings approach with long-term objectives.

Please contact our office if you would like to discuss how these changes may affect your individual situation or to coordinate adjustments to your financial plan.