NEW RULE FOR CATCH-UP CONTRIBUTIONS
401(K), 403(B) & 457(B) PLANS

Current law permits individuals aged 50 and older to contribute additional amounts to a 401(k), 403(b), or 457(b) plan, to help bolster retirement savings later in life. These other amounts, called "catch-up" contributions, may be withheld from an individual's compensation as either a pre-tax or Roth (after-tax) deduction.

The new SECURE 2.0 Act (passed in December 2022) provided significant changes to the catch-up contribution rules for certain participants in 401(k), 403(b), and 457(b) plans. ***Those changes include the following impacts:***

INDIVIDUALS WITH PRIOR YEAR WAGES OVER $145,000

- Starting in 2026, catch-up contributions for individuals with $145,000 of W-2 wages for the previous year must be Roth amounts. The primary tax benefit of a Roth account is that monies in them can be withdrawn tax-free in the future as a qualified Roth distribution.
- The compensation threshold ($145,000) will index for inflation in future years. Employers need to know the compensation level annually and notify affected employees that their catch-up contributions for the next year must be Roth.

SELF-EMPLOYED INDIVIDUALS

- Unless Congress changes the language in the SECURE 2.0 Act or provides further guidance, this new rule does not apply to self-employed individuals (sole proprietors or partners). These individuals, regardless of compensation, will continue to have the option to make pre-tax or Roth catch-up contributions.

PREPARING FOR THE 2026 TAX YEAR

- Employers must ensure their plan document includes the Roth deferral option and talk to their payroll provider about Roth deductions. Employers will want to ensure the plan's recordkeeper can accept Roth contributions and keep track of the Roth amounts as a separate contribution type.
- In the event an Employer does not add a Roth deferral option to their plan, the older, higher-income individuals will not be allowed to make any catch-up contributions after December 31, 2025.
- If a plan already includes a Roth deferral option, employers should notify affected individuals about the change for 2026. Participants who have previously made pre-tax catch-up contributions must complete an updated salary deferral agreement indicating the catch-up contribution amounts will be withheld on a Roth basis.

To ensure that your plan is ready to comply with this new rule going into effect on January 1, 2026, we encourage you to contact your CRI TPA Services representative today.

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