



BENEFITS & COMPENSATION UPDATE

IMPORTANT CHANGES TO CATCH-UP CONTRIBUTIONS UNDER THE SECURE 2.0 ACT FOR 2025 AND 2026

There are two noteworthy changes to the treatment of catch-up contributions under the SECURE 2.0 Act of 2022 (“SECURE 2.0 Act”), that are effective on January 1, 2025, and January 1, 2026.

Beginning on January 1, 2025, the SECURE 2.0 Act increases the catch-up contribution limits for participants in 401(k), 403(b), and governmental 457(b) plans (“eligible plans”) who attain age 60-63 during the applicable calendar year.

A separate section of the SECURE 2.0 Act will require all catch-up contributions to qualified retirement plans to be made on a Roth basis (after-tax) rather than on a pre-tax basis, for those participants whose wages from the employer sponsoring the plan for the preceding calendar year exceed \$145,000 (indexed for inflation). While this provision was set to take effect on January 1, 2024, the IRS has delayed its implementation until January 1, 2026.

Background.

Participants in eligible plans are allowed to contribute up to \$23,500 to their respective plans for 2025; the maximum deferral amount is periodically increased to reflect cost-of-living adjustments.

Catch-up contributions have also been available to participants ages 50 and over since they were introduced in 2001. These catch-up contributions allow participants age 50 and over to exceed their annual contribution limit by \$7,500 for 2025. Catch-up contributions enable

participants to increase their retirement savings as they approach their retirement age.

ENHANCED CATCH-UP CONTRIBUTIONS FOR PARTICIPANTS AGES 60 TO 63 UNDER SECURE 2.0 ACT

Effective January 1, 2025, the \$7,500 annual standard catch-up contribution limit will be increased for participants in eligible plans who attain age 60 through 63 by December 31 of the applicable calendar year. The catch-up contribution limit for this age group will be increased to the greater of \$10,000 or 150% of the standard annual catch-up contribution limit; thus for 2025, the enhanced catch-up contribution limit is \$11,250. Once a participant reaches age 64 in a calendar year, the enhanced catch-up contribution limit no longer applies and the participant will then be subject to the standard catch-up limit in effect for that year.

The catch-up contribution limit will also be increased for participants in Savings Incentive Match Plans for Employees (“SIMPLE”) IRAs who attain age 60 through 63 during the applicable calendar year. For 2025, the annual limit on employee salary deferrals for SIMPLE IRAs is \$16,500 and the standard catch-up contribution limit for employees who have attained at least age 50 is \$3,500. Under the SECURE 2.0 Act, for 2025, the enhanced catch-up contribution limit for SIMPLE IRAs for participants ages 60 to 63 will be \$5,250.

DELAYED IMPLEMENTATION TO 2026 OF ROTH CATCH-UP CONTRIBUTIONS FOR PLAN PARTICIPANTS EARNING OVER \$145,000

Beginning January 1, 2026, all catch-up contributions for participants who earned over \$145,000 (indexed for inflation) in wages in the prior year from the employer sponsoring the plan will be required to be made on a Roth (after-tax contribution) basis. For plans maintained by more than one employer (including multiemployer plans), a participant's wages from different participating employers will not be aggregated for purposes of the \$145,000 threshold when they are employed by more than one participating employer in the preceding year. Plan administrators will be able to treat catch-up contribution elections by participants who earned over

\$145,000 in prior-year wages from the sponsoring employer as being Roth contribution elections, even if the participant elected for the catch-up contributions to be on a pre-tax basis. Nevertheless, plan administrators should ensure their participant communications discuss this upcoming change to the taxation of catch-up contributions and any effect it may have on participants' elections.

Next Steps

Plan administrators and participants are encouraged to review the two above changes to catch-up contribution rules and consult with their retirement and tax advisors. Other key provisions of certain optional and mandatory plan changes under the SECURE 2.0 Act are summarized in our previous update, dated January 23, 2023.

This update is not intended to provide legal advice with respect to any particular situation, and no legal or business decision should be based solely on its content.

If you have any questions about this update, please contact:

Norman J. Misher	212-903-8733	nmisher@rhtax.com
Allen J. Erreich	212-903-8769	aerreich@rhtax.com
Chase B. Steinlauf	212-903-8736	csteinlauf@rhtax.com
Daniel P. Herrmann	212-903-8718	dherrmann@rhtax.com
Mikhail Spivakovsky-Gonzalez	212-903-8752	mspivakovsky@rhtax.com