Changes for 2026

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10/8/2025

Starting in 2026, the Secure 2.0 Act will require highly paid individuals (HPIs - defined as those with W-2 box 3 FICA wages exceeding $145,000 in 2023) who are 50 or older to make catch-up contributions to a Roth account instead of a pre-tax account. This major change affects how these contributions are taxed for certain employees and requires employers to offer a Roth option in their retirement plans if HPIs will be able to make catch-up contributions in the future.

Mandatory Roth catch-up contributions for high earners

What it changes: Previously, employees aged 50 and over could choose to make catch-up contributions on either a pre-tax or Roth (after-tax) basis. Starting January 1, 2026, eligible HPIs no longer have this choice and must use a Roth account.

Who is affected: This rule applies to employees who earned more than $145,000 in FICA wages in the previous year (the $145,000 threshold is indexed for inflation). For example, a worker who earned more than $145,000 in 2023 will be subject to this rule for their 2026 catch-up contributions. Indexed number for lookback to 2025 will be released before the end of 2025.

What this means for employees: Catch-up contributions will be made with after-tax dollars, which will not lower your taxable income in the year they are made. However, the money will grow tax-free, and qualified withdrawals in retirement will also be tax-free.

What this means for employers: Employers must now offer a Roth contribution option in their plans. If a plan does not have a Roth option, HPIs will be unable to make catch-up contributions.

How to prepare

For employees:

1. Review their FICA wages from 2025 to see if they will be affected by the Roth catch-up rule in 2026.
2. Consider how the switch to Roth catch-up contributions will impact their overall tax strategy, as they will no longer receive a tax deduction for those contributions.
3. If they are a high earner and their employer does not offer a Roth option, they should inquire with their Plan Administrator to ensure they add one to comply with the new rules.

For employers:

1. Coordinate with their payroll and Plan Administrator to identify employees subject to the new mandatory Roth catch-up rule.
2. Ensure their plan offers a Roth contribution feature if it does not already. The deadline for formal plan amendments has been extended, but good-faith compliance is required starting in 2026.
3. Communicate clearly with affected employees about the changes, as some may be accustomed to making pre-tax catch-up contributions.

Potential increases to contribution limits

While the official 2026 limits have not yet been announced by the IRS, Mercer has projected increases in several categories based on inflation data points.

- **IRA contribution limit**: The limit for traditional and Roth IRAs is projected to increase from $7,000 in 2025 to $7,500 in 2026.

- **401(k) and 403(b) contribution limits**: The total employee contribution limit for workers under 50 is expected to rise from $23,500 in 2025 to $24,500 in 2026.
- **Standard catch-up contributions**: The regular catch-up contribution limit for individuals 50 and older is projected to increase from $7,500 to $8,000.
- **Higher catch-up for ages 60–63**: The enhanced catch-up limit for those aged 60 to 63 could increase from $11,250 in 2025 to $12,000 in 2026.
- The IRS typically announces official limits for the coming year in late October or early November.

Other notable changes

- **Full retirement age for Social Security**: For individuals born in 1960 or later, the age to receive 100% of your Social Security benefits will officially become 67 in 2026.
- **Social Security earnings test**: For those collecting benefits while still working, the earnings limit will increase. In 2026, the limit is projected to be $24,360 for those under their full retirement age.
- **Paper statement requirements**: Defined contribution plans will be required to provide a paper statement to participants at least once per year, unless the participant specifically opts for electronic delivery.

And as always, consult a tax or financial professional to determine how these and other tax changes might impact your retirement savings strategy.