The PRS Report

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CLIENT REFERRAL PROGRAM:

If a client you recommend to us becomes our client, you can receive a 10% discount on annual services for every year they remain a client.

Roth Catch-Up Contributions

In the calendar year in which a 401(k) Plan participant reaches age 50, the dollar limit for making 401(k) contributions increases. These increased 401(k) contributions above the 401(k)-dollar limit are called Catch-ups 401(k) contributions. For 2026, allowable catch-up contributions are expected to be up to $8,000 although the official 2026 numbers have not yet been released. For those participants in your Plan who are between the ages of 60 and 63, an even greater catch-up amount can be contributed ($11,250 for 2025).

For 2026, any 401(k) Catch-up contributions made by participants with FICA wages in excess of $145,000 for 2025 are required to be made as Roth contributions (i.e., taxed at the time the contributions are made, but grow tax free) instead of as Pre-tax contributions. Any 401(k) contributions up to the non-catch-up 401(k) limit can continue to be pre-tax. This mandate is under the directive of the SECURE 2.0 Act and is widely considered to be challenging since it will involve the coordination of various entities (the plan sponsor, payroll, recordkeepers, and the TPA) to satisfy its requirements.

We will be amending all Plans for SECURE 2.0 early next year, and for those Plans that currently do not allow for Roth contributions, we will add Roth provisions, to be effective by the end of 2025.

If you have not used Roth 401(k) salary deductions in the past, beginning with the first payroll in 2026, your payroll provider will need to have a new deduction category available, so-named Roth 401(k) or some such title. This is very important so that pay is taxed correctly. If you would like us to participate in a call with your payroll provider about this, let us know.

As with payroll, your Roth 401(k) monies must be accounted for separately from your Pre-tax 401(k) monies. If your Plan has brokerage accounts, we will allocate your 401(k) monies into the correct buckets. If your Plan is handled by a Recordkeeper (e.g., John Hanckock, American Funds, Voya, etc.), and the recordkeeper has not communicated with you about this, we will attempt to intercede on your behalf to get the Roth 401(k) buckets established where needed. It is important to get this right so that at the time of distribution, the various buckets of money are taxed (or not taxed) correctly.

The 2026 401(k) Election Forms have not been released yet, but we expect them to reflect these new rules. It should be made clear to those participants whose 2025 FICA wages will exceed $145,000 that their catch-up contributions starting in 2026 must be deducted from their pay as Roth contributions.

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