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Retirement Plan Newsletter | Q4 2025: Changes to 401(k) Plans in 2026

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As expected, the IRS raised the annual 401(k) contribution limits in 2026. Additionally, 2026 will bring a big change in the way higher income earners' catch-up contributions will be taxed. Let's review what will change, why it matters, and how it could affect your retirement savings.

Below are some of the changes to contribution limits in 2026:

- The IRS raised the annual 401(k) (and similar plans: 403(b)) contribution limit to $24,500 for 2026. That's up $1,000 from the 2025 limit of $23,500.
- For workers aged 50 and over, the "standard" catch-up contribution increases to $8,000 in 2026 (from $7,500 in 2025). That means a 50+ participant could contribute up to $32,500 total (base + catch-up) in 2026.
- Under the SECURE 2.0 Act, there's a higher "super catch-up" limit for those aged 60–63. For 2026, that special limit remains $11,250. If someone in that age range uses the super catch-up, their total 401(k) contributions (employee side) could be $35,750.

One of the more significant shifts is how catch-up contributions must be treated for some people:

- Beginning in 2026, if you are 50 or older and your Social Security (FICA) wages from your employer exceeded $150,000 in the prior year (2025), your catch-up contributions must be made as Roth.
- This means you lose the ability to make pre-tax (traditional) catch-up contributions in that scenario – instead, you contribute on a Roth basis, so you pay tax now but get tax-free withdrawal later.
- Importantly, if your employer's plan does not offer a Roth option, and you are subject to the mandatory Roth catch-up rule, you may be prevented from making catch-up contributions at all.

Why do these changes matter?

- **More Saving Power:** The bump in contribution and catch-up limits means older savers can put away more money in their 401(k) for retirement, especially later in careers.

- **Tax Strategy Shift:** For high earners hit by the Roth catch-up rule, there's a meaningful tax tradeoff. Rather than getting an upfront deduction (traditional/pre-tax), contributions are taxed now. But the upside is tax-free growth, and tax-free withdrawals in retirement (assuming Roth rules are met).
- **Plan Design Implications:** Some employers will need to update plan designs. Plans that don't offer Roth options might have to reconsider or risk excluding some catch-up contributions for affected employees.
- **Action Required:** If you're in or near this income threshold (FICA wages ~ $150K), now is a good time to talk to your payroll administrator or retirement-plan advisor. Make sure your 401(k) plan is ready, and understand how you'll contribute in 2026.

The 2026 changes to 401(k) contribution limits and catch-up rules give many savers – especially older ones – more room to save. But for higher earners (age 50+ with FICA wages above ~$150K), the mandatory Roth catch-up introduces a shift in how contributions are taxed. It's not just a numbers change: it's a potential strategic inflection point for retirement saving.

Grimes & Company has a dedicated team that specializes in providing investment advisory services to retirement plan fiduciaries and their employees. We assist clients with investment selection and monitoring, fee benchmarking, plan design and employee education, so please reach out with any questions as to how we can help you achieve your goals.