Secure 2.0: The 2026 401k Catch Up Rule That Will Surprise High Earners

Nate: So there was an act called Secure 2.0. Of course, 2.0 meaning it's the second one. There was an original Secure Act, which itself is an acronym for retirement-related bills that were passed here in the last several years, and many of them have gone into effect at different staggered timelines over the last couple years, and then also into the future. And one kind of key item that was built into the second version relates to the 401(k) catch ups, and specifically Roth, designating those as Roth, beginning in 2026. So we certainly think that that is worth addressing for many company plans, because many of them may or may not have provisions relating to this, but a lot involved here, named with that, and then a few other provisions as well, connected to Roth.

Andy: Yeah, I probably shouldn't admit this, but this one caught me a little bit by surprise, because, like you said, this was passed a while ago, and it was a staggered implementation. But this one's big. This one's big for the individual. This one's big for the retirement plan administrators, for payroll, for businesses. This one, if it's catching us a little bit by surprise, it's going to catch a lot of people by surprise. And really, I would say, in short, what, what this provision says is that, starting in 2026, if your income was at least $145,000, and you are going to participate in 401(k) catch-up, okay, that catch-up must be Roth. It can't be traditional, okay? And you know a little more detail before I speculate, is the catch-up comes into play once you turn 50. You know, we're always asking our clients, you know, let us know in that year you turn 50, so we can make sure you're getting your catch-up, okay? And so that that catch-up is still $7,500 once you turn 50. But again, you got to look back at your income for the prior year. And if it was at least $145,000, it's going to have to be a Roth. You can still do it, but it's got to be a Roth. And then, probably even more less known, is there's something being called the Super catch-up that apparently, if you are between 60 and 63 and don't ask me how they, you know, set those ages, but you'll be able to contribute $11,250 as opposed to the $7,500. Now, I haven't quite found what happens at 64, if they just assume no one's working anymore. No one's doing 401(k), but that's the basics?

Nate: Right

Andy: And I guess what I would speculate is, is they consider $145,000 high-income, and if you're at that level, you don't need the tax deductibility, and they want to encourage Roth? Is that what you would say?

Nate: That might be fair. It seemed to me, as I read through that little nugget, that they picked that number partially because they probably don't anticipate a lot of people that make less than that to really be taking advantage of that catch-up. So in my mind, I'm thinking, this is, for folks that want to do it, this is probably going to apply to almost everybody that wants to do it and has the ability to part with that kind of cash flow from, from their wages. You know, some special situations may be excluding, but certainly is something to think about, and the pushing folks to go to more of a Roth based system than just getting the immediate tax deduction, it's going to allow them to collect more tax now from higher income individuals, in theory, so kind of looking at higher tax rate percentages for that income. So I think they see it as a budget bridging measure. But to take this a step further beyond the individual, there are company plans out there right now that don't allow for Roth provisions as part of their retirement plan. So if your company plan doesn't allow for Roth, they've said you just can't do the catch-up anymore, and that's that.

Andy: Yeah, this is fascinating to me, because there is going to be so much error related to this. It is going to take years for this to catch on, for this to become vernacular, for this to be implemented. So we could go in any different direction here, of well, what if this? What if that? What's going to be the correction, the penalty, etc, but this is going to catch a lot of people by surprise.

Nate: Absolutely. So I think you mentioned it, but what would be your thoughts in terms of as a business owner and as an individual, thinking about how this provision is going to impact someone and what to do next?

Andy: I think the onus is mostly on the business owner, you know, to reach out to whoever handles their retirement plan and make sure that the plan is compliant and has that Roth option. And then internally, you know, whoever's, whoever's handling that deferral form process, whoever is putting in the payroll items into the payroll system, there's going to have to be a coordinated effort between the employer, the retirement plan administrator, and whoever is handing the payroll to make sure that systems are in place to handle this correctly.

Nate: And the timeline here is important too, right? This is 2026, so this is coming up fast, so the action plan is from many angles. Kind of get right. Work with the key people involved, with your advisors and with internally, with your, your business, to kind of get your proverbial ducks in a row pretty quickly and make sure your, your eyes are dotted and T's are crossed, so to speak.

Andy: There are things you can procrastinate on. This is not one of them. I would get on this right away.