VILJOEN CONSULTING

Catch Up Contributions

The SECURE 2.0 Act, enacted in late 2022, is changing your retirement plan's ability to allow catch-up contributions.

Enhanced Catch-Up Limits (2025 Onward):

One of the major updates introduced by SECURE 2.0 is the enhancement of catch-up contribution limits for individuals aged 60 to 63. Starting in 2025, the maximum catch-up contribution for employer-sponsored plans—401(k), 403(b), and 457(b)—increases to the greater of $10,000 (adjusted for inflation) or 150 percent of the 2024 regular catch-up contribution limit. For SIMPLE IRA participants, this limit is the greater of $5,000 or 150 percent of the 2025 regular catch-up limit. This change offers a significant opportunity to bolster your retirement savings.

To be clear, these super catch-up contributions are allowed only if you reach age 60, 61, 62, or 63 during the year in question. If you are not within that age window for the year in question but are age 50 or older, the "regular" catch-up contribution maximums apply. Those maximums are $7,500 and $3,500 (SIMPLE IRA) for 2023, adjusted for inflation in future years.

Controversial Change for High-Income Participants Delayed

Another change initially set for 2024, which faced considerable backlash, has been postponed to 2026. This pertains to high-income participants (with prior-year FICA wages over $145,000, adjusted for inflation) in employer-sponsored plans. Such individuals will make catch-up contributions only to a designated Roth account.

While these contributions don't reduce taxable wages, they do offer tax-free growth and withdrawals under qualifying conditions.

Why This Matters

The Roth account change, though now delayed, will eventually impact how high-earning individuals can make catch-up contributions. If your plan doesn't offer a Roth option, amendments to enable these contributions might be required.

Immediate Steps

The status quo remains for 2024 and 2025, allowing standard catch-up contributions for those age 50 or over. It's advisable to start planning for the SECURE 2.0 changes, especially if you manage a 401(k) plan for employees. Understanding these shifts and preparing in advance will help ensure smooth compliance and optimal retirement planning.