

2025 Brings More Deferral Opportunities for Employees

Thanks to the SECURE 2.0 Act, certain employees will have more deferral opportunities beginning in 2025. Read below to learn how much employees can contribute to their retirement plan and about the types of deferrals that may be available.



Pretax, Roth, and Nondeductible Contributions

Pretax Deferrals

Employees who are eligible to participate in a 401(k), 403(b), or governmental 457(b) plan may choose to defer a dollar amount or percentage of their wages into the plan each pay period. Plan sponsors may allow employees to defer taxation on their compensation by making pretax deferrals. Pretax deferrals are not included in the participant's taxable income in the year the deferral is contributed, but will be taxed along with all their earnings upon distribution.

Designated Roth Contributions

Plan sponsors may also allow employees to make designated Roth contributions in addition to or in lieu of pretax salary deferrals. Unlike pretax deferrals, designated Roth contributions are included in the employee's income when contributed. These amounts, plus any earnings generated, will be distributed tax-free if certain conditions are met.

Designated Roth contributions are aggregated with any pretax deferrals and may not exceed the annual dollar limit under Internal Revenue Code Section (IRC Sec.) 402(g), which is \$23,500 for 2025. The plan document dictates whether designated Roth contributions are permitted.

Nondeductible Employee Contributions

Some plan sponsors may also allow employees to make additional contributions to the plan on an after-tax or nondeductible basis. All earnings on such contributions are tax-deferred until distributed from the plan. Although nondeductible employee contributions are not subject to the IRC Sec. 402(g) limit, they are included in the IRC Sec. 415 annual additions limit (\$70,000 for 2025) and are subject to the actual contribution percentage test applicable to 401(k) plans. As with designated Roth contributions, the plan documents will specify whether this option is available to employees.

Catch-Up Contributions

Catch-Up Contributions (Age 50 or Older)

Employees who will attain age 50 or older by the end of the calendar year may make additional catch-up deferral contributions. The catch-up contribution limit is \$7,500 for 2025. Catch-up contributions are defined in the plan document and do not count against an employee's IRC Sec. 402(g) limit (\$23,500 for 2025) or the IRC Sec. 415 annual additions limit (\$70,000 for 2025).

Super Catch-Up Contributions (Ages 60–63)

Beginning in 2025, the SECURE 2.0 Act will increase the catch-up contribution limit to \$11,250 for employees who attain age 60, 61, 62, or 63 by the end of the calendar year. The increased catch-up limit applies only at these designated ages. After an employee "ages out," it appears that the employee would go back to the regular catch-up limit (e.g., \$7,500 for 2025). The increased catch-up amount will be indexed for inflation after December 31, 2025.

This provision appears to be discretionary: plan sponsors are not required to offer the higher catch-up contribution limit to employees. Document providers and service providers may, however, choose to automatically link this increased catch-up amount to the availability of regular catch-up provisions.

Mandatory Roth Catch-Up Contributions

Previously, catch-up contributions could have been made with either pretax or Roth elective deferral contributions. But the SECURE 2.0 Act requires that all catch-up contributions for a participant whose FICA wages for the prior year exceed \$145,000 (indexed beginning in 2025) be made on a Roth basis.

Although this rule technically became effective beginning January 1, 2024, the IRS has issued guidance that effectively delays this date to January 1, 2026. During this two-year delay, catch-up contributions will be treated as satisfying the requirements under the SECURE 2.0 Act, whether or not they are designated as Roth contributions.

The following chart summarizes the 2024 and 2025 deferral contribution limits.

Retirement Plan Deferral Contribution Limitations

Limitations	2025	2024
Annual additions limit	\$70,000	\$69,000
Annual deferral limit	\$23,500	\$23,000
Catch-up contributions (age 50 or older)	\$7,500	\$7,500
Catch-up contributions (ages 60-63)	\$11,250	N/A