SECURE 2.0 Act optional provision guide

Higher catch-up contribution limit

Purpose

Catch-up contributions are a great way for participants who started late on their retirement savings journey to make additional contributions to their plan or for employees who want to save more once they reach a certain age. Under current rules, and if permitted by the plan, participants age 50 and older can make additional contributions above the current 402(g) limit (catch-up contributions) to their retirement accounts. The current catch-up contribution limit for 401(k) participants is $7,500 for 2025, on top of the annual $23,500 standard contribution limit. The SECURE 2.0 Act increases this limit for participants ages 60–63.

Provision overview

The optional higher catch-up contribution limit provision of SECURE 2.0 gives plan sponsors the choice to increase the catch-up contribution limit for participants ages 60 to 63 to the greater of $10,000 or 150% of the then-current catch-up limit. This will give participants an opportunity to further boost their savings as they move closer to retirement.

- This provision is now available as of January 1, 2025.
- Participants eligible for the higher catch-up contribution limit are those who will attain age 60, but not age 64, before the close of the taxable year.
- Once the participant reaches age 64, the standard catch-up limits apply.
- These amounts will be indexed for inflation after December 31, 2025.

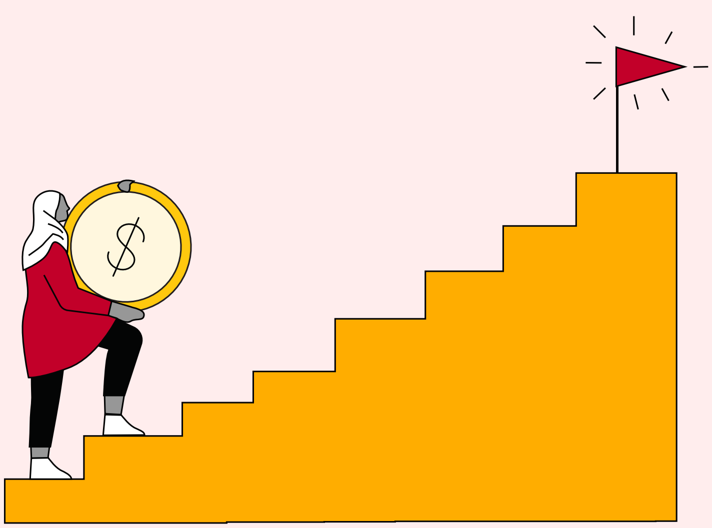
Important updates for plan sponsors:

On January 13, 2025, the Internal Revenue Service (IRS) issued a proposed regulation addressing the SECURE 2.0 provision that pertains to catch-up contributions.

Key takeaways impacting this provision:

- The offering of higher catch-up contributions to participants ages 60 to 63 is optional.
- A plan that offers catch-up contributions would not fail to satisfy the catch-up contribution universal availability requirements.

Effective date: January 1, 2025
Effective for: 401(k), 403(b), and governmental 457(b) plans



The SECURE 2.0 Act increases the catch-up contribution limit for participants ages 60–63.

Vanguard's implementation

The higher catch-up contribution limit provision is now available. Vanguard has completed all necessary development work to ensure a smooth adoption process for plan sponsors who wish to opt into this provision. We are also committed to continuously enhancing this service to ensure that we offer the best possible experience for our clients and participants.

Plan sponsor considerations

Plan sponsors interested in adopting this provision should reach out to their client success executive. Before adopting this provision, we encourage you to work with your payroll or in-house department to ensure that additional catch-up amounts can be programmed to deduct the higher catch-up limit for eligible participants.

Vanguard action	Plan sponsor impact	Participant impact
Payroll providers will enforce higher catch-up contribution limits, with Vanguard providing secondary validation to ensure that these additional amounts for eligible participants (ages 60–63) can be successfully processed and updated to participant accounts. For plans using the 402(g)-monitoring service, we will flag contributions that exceed the new higher catch-up contribution limit for review and resolution.	Before adopting this provision, plan sponsors should work with their payroll or in-house department to ensure that additional catch-up amounts can be programmed to deduct the higher catch-up limit for eligible participants (ages 60–63). Vanguard strongly recommends not adding the higher catch-up contribution limit provision to your plan until your payroll provider is prepared to support the additional contribution deductions for this participant population.	Vanguard is offering participant website content resources, mail and email campaigns, and additional informational material to educate plan sponsors and ensure that eligible participants (ages 60–63) are aware of the higher catch-up contribution opportunities and how it can boost retirement savings. Updates to existing participant education materials to reflect the new higher catch-up contribution limit option have also been implemented.

For plan sponsors opting out of this provision: Plan sponsors using a custom document should consult with their in-house counsel to determine the timing of any amendments needed. Depending on the language in the custom document, an amendment may have been required by December 31, 2024.

For plan sponsors opting in to this provision: Plan sponsors using Vanguard's preapproved document will require a plan amendment by the December 31, 2026, SECURE 2.0 plan amendment deadline.

As always, your Vanguard client success executive is here to help you with any questions you may have about the higher catch-up contribution limit or the SECURE 2.0 Act.

Frequently asked questions

1. How are "eligible participants" defined by the higher catch-up contribution limit?

Participants eligible for the higher catch-up contribution limit are defined as active participants of a plan who reach the age of 60, 61, 62, or 63 by the end of the taxable year. For all other catch-up contribution-eligible employees, including those who will turn 64 by the end of the taxable year, the standard catch-up limits apply.

2. Will the higher catch-up contribution limit provision, if adopted, impact the way contributions are sent to Vanguard?

No. Contributions that exceed the standard catch-up limit will be included in the same formats that exist today.

3. Will higher catch-up contribution limit amounts for participants ages 60–63 require that new source(s) be added to the plan for separate catch-up contribution tracking purposes?

No. The increased catch-up amounts for participants ages 60–63 should be contributed to the same source(s) as they are today.

4. How will the higher catch-up contribution limit apply to eligible participants after the required Roth catch-up contribution provision of SECURE 2.0 takes effect on January 1, 2026?

Participants between the ages of 60–63 will still be able to contribute the higher catch-up amount after January 1, 2026. However, after the required Roth catch-up contribution provision of SECURE 2.0 takes effect, any participants eligible for the higher catch-up limit who earned more than $145,000 in FICA wages in the previous calendar year will have to make their higher catch-up contributions as Roth contributions.

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