



## Roth Is Now the Only 401(k) Catch-Up Option for High-Income Employees

Effective 1/1/26, Section 603 of the SECURE Act 2.0 introduces a significant shift for high-income 401(k) plan participants who plan to make catch-up contributions. Those contributions must now be deemed designated Roth account (DRAC) contributions, thus made with after-tax dollars.

The catch-up contribution provision available with 401(k) plans allows employees age 50 or older to make contributions beyond annual limits. A popular option for high earners, this provision allows an individual to take advantage of their extra income to boost retirement savings if they postponed doing so earlier in his or her career.

But high-income clients who plan to make catch-up contributions to their 401(k)s have a big change coming in 2026. Section 603 of the SECURE Act 2.0 requires that catch-up contributions made by high-income plan participants—that is, those making more than the section 603 wage limit—be deemed designated Roth account contributions (DRACs). This requirement applies to the section 109 “super catch-up” option for participants ages 60 through 63, as well. While the tax-free income from Roth account distributions is a plus, clients who anticipate being in a lower tax bracket in retirement may be frustrated by paying taxes during their peak earning years.

The final regulations will take effect on January 1, 2027, but this provision will apply as of January 1, 2026. This means that high-income 401(k) participants must make catch-up DRACs this year. Additional tax planning may be required to manage clients’ overall tax bills, so it’s important to proactively consider their contribution plans before age 50.

Let’s review the basics and consider how this might affect planning this year and beyond.

### ■ Who are considered high-income employees?

Employees with wages above the section 603 income limit are considered high-income for the purpose of 401(k) catch-up contributions. The annual limit stated in the SECURE Act 2.0 is \$145,000, adjusted for inflation. For 2026, the inflation-adjusted limit is \$150,000. Thus, a client with yearly wages exceeding \$150,000 is limited to after-tax DRACs. This limit applies to standard catch-up contributions available to plan participants age 50 or older and to “super catch-up contributions” available to plan participants age 60 through 63.

Wages are identified as W-2 income. Based on the regulation, this amount is reported by the employer and found in Box 3 on the employee’s last W-2. For 2026, that means any wages subject to the Federal Insurance Contributions Act (FICA) earned in 2025. Some employers may use Box 5, or total income, which will likely meet the reporting requirement, as well.

### ■ What if my client has 1099 income?

The provision only refers to wages, but sole proprietors and partners have pass-through income that is not considered wages. As an example, a sole proprietor could exceed the income threshold and still make a pre-tax catch-up contribution. For some business owners, it will make sense to review business structures. This may be especially true for those with an Individual 401(k) or who are partners and might benefit from considering a shift to a different plan option, such as an SEP IRA.

Insurance products can be issued in all states, except New York, by Pacific Life Insurance Company or Pacific Life & Annuity Company. Product/material availability and features may vary by state.

Keep in mind that while some high-income clients may not be able to reduce wages, they also may consider other ways to reduce their tax bills. An after-tax catch-up provision could cause a client to exceed threshold amounts such as those noted in the One Big Beautiful Bill Act (OBBBA). Such a client may benefit from being “forced” into a Roth account. Some other points to consider include:

- **Managing 1099s to reduce overall taxes.** While the catch-up provision applies to wages, a client with investment accounts may want to consider whether to use a deferred annuity to control current taxable income in a portion of the portfolio. As a deferred annuity is a longer-term investment and has a 10% penalty for distributions prior to age 59½, this is most appropriate for retirement savings.
- **Prioritizing tax-free income.** For a client in his or her fifties or early sixties, the new catch-up rule will automatically create tax-free retirement income. This will give the client the ability to select taxable vs. tax-free income when taking retirement distributions.
- **Planning to reduce taxes for heirs.** While a client may not like paying taxes today, beneficiaries—especially those who are financially successful—will thank clients for eliminating their 1099s on qualified distributions.

This change highlights why saving early—even on a small scale—can be beneficial to clients’ overall retirement plans. It also acts as a reminder that funds saved before high-earning years may be a great opportunity to begin DRACs before some might be required.

- **What are best practices for older clients without Roth assets?** This situation can be tricky. Clients in their early to mid-sixties may only make pre-tax contributions to their 401(k)s. After the implementation of this provision, a small amount of that overall account will be considered a DRAC. Some clients may elect to make additional Roth conversions either within their plans or via IRAs, building a tax-free income base for retirement. Others may be reluctant and elect to forgo catch-up contributions in favor of making additional investments in their nonqualified after-tax accounts. The income would not be tax-free, but if the client is in a lower tax bracket in retirement, that may be less of an issue.

## Plan Early to Secure Clients’ Retirement Goals

As a final note, remember that a DRAC rolled to a Roth IRA starts the five-year clock unless the Roth IRA is already established. If the Roth IRA is five or more years old, the DRAC will take its waiting period. Keep in mind that the first year of the clock starts on January 1 of the year the contribution or conversion occurs, so a Roth established in December starts its waiting period on January 1 of that same calendar year. Thus, if a high-income client does not yet have a Roth IRA, this may be a good time to either contribute or convert.

The change to 401(k) catch-up provisions for high-income employees is an opportunity to help clients expand the tax characteristics of their future retirement-income options. It also can allow you to help reduce overall tax impacts and provide your clients with a planning advantage.

### ACTIONS YOU CAN TAKE RIGHT NOW

- Identify clients who will fit the section 603 definition of high-income employees.
- Discuss options to reduce wages or manage overall taxes.
- Consider whether deferral through an annuity might fit some clients’ situations.

## Additional Resources and Links

---

[SECURE Act 2.0](#)

[RILAs – An Evolved Approach to Help Prepare for Retirement](#)

[One Big Beautiful Bill Act: Key Provisions](#)

For more information about retirement planning,  
please contact our Retirement Strategies Group at  
[RSG@PacificLife.com](mailto:RSG@PacificLife.com) or (800) 722-2333, ext. 3939.

[Annuities.PacificLife.com](http://Annuities.PacificLife.com)

---

**Pacific Life, its affiliates, their distributors and respective representatives do not provide tax, accounting or legal advice. Any taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor or attorney.**

Pacific Life refers to Pacific Life Insurance Company and its subsidiary Pacific Life & Annuity Company. Insurance products can be issued in all states, except New York, by Pacific Life Insurance Company and in all states by Pacific Life & Annuity Company. Product/material availability and features may vary by state. Each insurance company is solely responsible for the financial obligations accruing under the products it issues.

The home office for Pacific Life & Annuity Company is located in Phoenix, Arizona. The home office for Pacific Life Insurance Company is located in Omaha, Nebraska.

**This material is intended for financial professional use only. Not for use with the public.**

---



THE OFFICIAL SPONSOR  
OF RETIREMENT™