2026 Roth catch-up explained

21 January 2026, 18:07 UTC, written by Ainsley Carbone, Retirement Strategist, UBS GWM CIO Global Investment Management, Justin Waring, Head UBS Wealth Way Strategy & Solutions, UBS GWM CIO Global Investment Management

Mandatory Roth catch-up contributions: What's changing, why it matters, and what to do.

What's changing

Beginning in 2026, employees turning 50 and older who earned more than $150,000 in wage income from their current employer in the previous year will be required to make catch-up contributions to workplace retirement plans—such as 401(k)s—on a Roth basis. These contributions are made with after-tax dollars, meaning they are not eligible for an upfront tax deduction, but qualified withdrawals may be income tax-free in retirement. If a plan does not offer a Roth 401(k) option, catch-up contributions for high earners may not be permitted.

Why this matters

This change may affect how retirement savings are taxed and may influence the long-term outlook on employees' retirement savings. Traditionally, catch-up contributions could be made on a pretax basis, reducing taxable income today and deferring taxes until withdrawals in retirement. Under the new rule, high earners must use Roth contributions, which are funded with after-tax dollars. While this means no immediate tax deduction, Roth contributions may allow for tax-free withdrawals later—potentially reducing tax liability in retirement if the employee might be taxed at a higher rate in the future.

For those subject to this rule, the shift may affect take-home pay and their overall tax strategy. It's important to note, however, that this does not mean that investors should avoid making catch-up contributions. Catch-up contributions remain a valuable way to boost retirement savings as you approach retirement age. What's more, adding more tax-exempt dollars to a family's balance sheet can help enhance tax diversification: having both pretax and Roth savings may provide flexibility in managing taxable income during retirement.

Having a full understanding of how Roth contributions differ from traditional contributions will help employees better understand how this change fits into their broader financial goals. For more details on the difference between Traditional pretax contributions and Roth contributions, see the CIO research report, **Traditional or Roth?** (published 29 May, 2024).

What to do about it

Individuals affected by this rule may want to:

- **Confirm Roth availability** in their workplace retirement plan. If Roth is available and catch-up contributions are allowed, employees may be able to find their FICA wages from the prior year on their 2025 W-2 to see if they exceeded the $150,000 threshold (indexed annually). It's important to note that newly hired employees will generally have $0 in FICA wages from the employer sponsoring the plan for the prior year and is thus not considered a "high earner."
- **Review their savings strategy** to understand how Roth contributions fit into long-term goals.
- **Consult a financial or tax advisor** to evaluate the implications for retirement income and tax planning.

Understanding these changes now may help avoid surprises later and ensure retirement savings stay on track.

For more actionable insights to enhance retirement savings this year, see the Global Investment Management team's report, **2026 Retirement guide** (published 14 January, 2026).

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