



Know the Numbers: IRS Retirement Limits Explained

Each year, the Internal Revenue Service (IRS) updates a complex set of contribution and benefit limits to take into account changes in the cost(s) of living that impact how much employees and employers can put into and receive from retirement plans. These limits, primarily governed by the Internal Revenue Code (IRC), are essential for maintaining plan integrity and ensuring contributions stay within legal boundaries. As a plan sponsor, it's not just about knowing the limits; it's about understanding how they apply, how they work together, and how they affect compliance and nondiscrimination testing.

Here's What You Really Need to Know:

- Multiple contribution limits apply each year, and none should be overlooked.
- Timely communication to employees can both ensure they get the full advantage of the plan benefits and can alleviate future frustration.
- Misapplying these limits can result in operational errors that may require costly correction, and potentially disqualify the plan if not corrected.
- There are new provisions regarding catch-up contributions from the SECURE 2.0 Act that allow additional contributions to be made by workers aged 60-63, as well as a requirement that catch-up contributions made by certain higher income individuals be made on a Roth basis (if the plan allows for Roth contributions).
- Staying up to date on legislative and regulatory changes is critical to ensure accurate application and ongoing compliance.

Let's Dive In...

Applying IRS contribution limits correctly can be complex. What are the key limits and what do they mean? Each limit is tied to a specific section of the IRC, which governs how contributions are calculated, capped and reported. The following key limits are important to understand:

IRC Section 402(g) – Limit on Employee Elective Deferrals

The 402(g) limit sets an annual limit on employee elective deferrals. This limit includes both pre-tax and Roth contributions made to a defined contribution plan. Importantly, this limit applies only to elective contributions of the employee, with some exceptions (see below). Mandatory employee contributions required as a condition of employment do not count toward the 402(g) limit.

Catch-up contributions that are made on an elective basis are excluded from the 402(g) limit as these have their own separate limit, based on a participant's age. Catch-up contributions fall under IRC section 414(v).

Other contributions that do not count towards the 402(g) limit include:

- Rollover contributions from other retirement plans or IRAs
- After-tax employee contributions (unlike Roth contributions, these are non-Roth and subject to a separate limit)

One key consideration for the 402(g) limit is that it applies across multiple plans and is a participant annual limit, not a plan limit. This means that if an employee contributed to another employer's plan during the year, those amounts must also be included in the total for the year. Any excess contributions over the limit must be returned to participants by April 15 of the following year and reported as income.

The 402(g) limit for 2026 is \$24,500, up from \$23,500 in 2025.

IRC Section 414(v) – Catch-Up Contributions

This limit allows certain participants, based on their age, to make additional elective deferrals above the standard 402(g) limit. Plan sponsors may, but are not required to, allow catch-up contributions to the plan, and while these are typically made on a pre-tax basis, they can be made on a Roth basis, if the plan allows. Regardless, if the plan would like to allow catch-up contributions, the plan document must include this feature. There are two options that the plan may select – but are not required to select – as it relates to catch-up contributions:

- Standard catch-up contributions (applies to participants who are age 50 or older)
- Enhanced, or “super”, catch-up contributions, which apply to participants who are ages 60 through 63. This is a new option under the SECURE 2.0 Act of 2022 (SECURE 2.0)

The catch-up contribution limit for individuals age 50 and older for 2026 is \$8,000, up from \$7,500 in 2025. The enhanced catch-up contribution limit for individuals aged 60 through 63 is \$11,250 in 2026, unchanged from 2025.

Note: A provision in SECURE 2.0 requires that individuals making above a specific FICA wage must make their catch-up contributions on a Roth basis. ***For 2026, if the plan allows catch-up contributions and permits Roth contributions, then catch-up contributions made by anyone making more than \$150,000 in FICA wages must be Roth.***

Note: Certain retirement plans may offer “special catch-up” contribution provisions beyond the standard age 50 catch-up under IRC section 414(v). These features must also be elected in the plan document to apply.

- 403(b) plans: Employees with 15 or more years of service with the same employer may qualify for an additional elective deferral beyond the regular limit and the age 50 catch-up. This is often referred to as the “15-year rule” and is governed by IRC section 402(g).
- Governmental 457(b) plans: Participants who are within three years of normal retirement age may be eligible for the special three-year catch-up, allowing contributions up to twice the annual deferral limit instead of the age 50 catch-up. This provision requires that the participant has unused deferral amounts from prior years and is governed by IRC section 457(b)(3).

IRC Section 415(c) – Maximum Total Contributions

The 415(c) limit sets the maximum total contributions to a participant’s defined contribution plan for a calendar year, including both employee and employer contributions. Plan sponsors must monitor this limit carefully. Catch-up contributions, defined under 414(v), generally do not count toward the 415(c) limit, allowing participants age 50 and older to contribute additional amounts without creating compliance issues (see above).

This limit is based on the lesser of the annual dollar cap or the participant’s gross compensation. ***The 415(c) dollar limit for 2026 is \$72,000, up from \$70,000 in 2025.***

IRC Section 401(a)(17) – Maximum Compensation Amount

The annual compensation limit for contributions sets a maximum amount on compensation that can be considered when determining employer and employee contributions. The purpose of this limit is to promote fairness and tax compliance and prevent excessive benefits for highly compensated employees. For employees who have compensation above the 401(a)(17) limit, any amount above the limit cannot be used when calculating contributions.

For example, if the plan provides an employer contribution of six percent and an employee earns \$400,000, the plan may only apply the six percent to \$360,000, which is the 410(a)(17) limit for 2026. In this example, the maximum employer contribution would be six percent x \$360,000 = \$21,600.

For 2026, the Section 401(a)(17) limit is \$360,000, up from \$350,000 in 2025.

Other Key Compensation Limits and New Key Limits from SECURE 2.0

- The threshold used in the definition of “highly compensated employee” under section 414(q)(1)(B) remains \$160,000.
- The threshold under section 416(i)(1)(A)(i) concerning the definition of “key employee” for top-heavy plan purposes is increased from \$230,000 to \$235,000.
- Pension-Linked Emergency Savings Accounts (PLESA): The limitation under section 402A(e)(3)(A)(i) concerning pension-linked emergency savings accounts that may be included in certain types of defined contribution plans is increased from \$2,500 to \$2,600.
- Distributions Related to Domestic Abuse: The limitation under section 72(t)(2)(K)(ii)(I) for eligible distributions to victims of domestic abuse from applicable eligible retirement plans is increased from \$10,300 to \$10,500.

Keeping Track of the Limits

The IRS typically releases any applicable updates to annual limits around November each year, which is a great time to revisit how these limits apply and where confusion often arises. One area that continues to be a pain point is configuring payroll systems correctly. A common error occurs when the payroll system is set to stop employee contributions once the 401(a)(17) compensation limit is reached, rather than the 402(g) elective deferral limit.

This misunderstanding can unintentionally restrict employees from maximizing their retirement savings. The cap set on the amount of compensation used to calculate contributions should not be set up so that it impacts how much an employee can choose to defer from their salary. Employees can continue deferring up to the 402(g) limit even if their compensation exceeds the 401(a)(17) limit. If a payroll system is set to stop deferrals once an employee's year-to-date compensation hits the annual limit (**\$360,000 in 2026**), it may prematurely cut off elective contributions, preventing the employee from reaching the full 402(g) limit. This can be especially problematic for high earners who front-load their contributions or receive large bonuses early in the year.

Payroll systems and the plan's service providers may help monitor each of the limits and apply them correctly. Payroll software may have a hierarchy that can be established to ensure the plan applies the limits in the correct order.

Tip! Make sure there is an understanding of the plan's definition of eligible compensation. If the contribution calculation is completed on ineligible compensation sources, this is an operational failure that must be corrected. It will also lead to issues with non-discrimination testing.

How the Limits Work Together



To illustrate how these limits work together, consider a high-earning executive who is 61 years old and earns \$500,000 in 2026. Due to the 401(a)(17) limit, only \$360,000 of that compensation can be used to calculate contributions. The executive defers \$24,500 under the 402(g) limit and is eligible to make an additional \$11,250 in enhanced catch-up

contributions under SECURE 2.0. If the employer contributes 10% of eligible compensation, that results in an employer contribution of \$36,000. The total contributions, excluding catch-up, would be \$60,500 (\$24,500 employee + \$36,000 employer), which is within the 415(c) limit of \$72,000. Including the \$11,250 catch-up, the total contributions increase to \$71,750, still compliant with all applicable limits.

Now consider an employee who is 45 years old and earns \$85,000 in 2026. Because their compensation is below the 401(a)(17) limit of \$360,000, their entire salary is eligible for contribution calculations. The employee chooses to defer \$15,000 of their salary into the 401(k) plan, well below the 402(g) limit of \$24,500 for 2026. Their employer provides a 5% matching contribution, which amounts to \$4,250 (5% of \$85,000). The total contributions to the plan, \$15,000 from the employee and \$4,250 from the employer, add up to \$19,250. This amount is comfortably within the 415(c) limit, which caps total annual contributions at the lesser of \$72,000 or 100% of eligible compensation. Since the employee is under age 50, they are not eligible for catch-up contributions under §414(v). In this scenario, all contributions are compliant with IRS limits, and no adjustments are necessary.

Do True-Up Contributions Affect IRS Limits?

It's common for matching contributions to be calculated and contributed with each payroll cycle. However, sometimes rounding differences over the year can mean that the calculated match per payroll differs from one calculated at the end of the year based on employee contributions.

To remedy this gap, so-called "true-up" contributions are employer contributions made after year-end to ensure employees receive the full match they're entitled to. While they help maximize matching contributions, they do not change or bypass IRS contribution limits. True-ups must still comply with annual contribution caps, like the 415(c) limit on total additions and the 401(a)(17) compensation cap.

Catch-up contributions for employees age 50 and above are excluded from these limits, but true-ups themselves must be carefully calculated to stay within the rules. Keep in mind that true-up contributions typically apply to the prior plan year and count towards the prior plan year's limits. For example, even if a true-up is not deposited until 2026, it should be treated as a 2025 contribution for IRS limits and compliance purposes. True-up contributions are only required if plan document provisions include this feature for the plan, so be sure to review the plan document to determine if true-up contributions are required.

What Happens When Contribution Limits are Misapplied?

Applying contribution limits incorrectly can create significant compliance issues that require corrective action. Common consequences include:

- Impact on nondiscrimination testing, which can jeopardize the plan's qualified status
- Participant-level issues, such as excess contributions leading to double taxation or unexpected taxable income
- Potential penalties for the plan, including IRS sanctions or corrective filings under the Employee Plans Compliance Resolution System (EPCRS)

Timely detection and correction are critical to avoid escalating costs, regulatory risk and participant dissatisfaction and/or confusion.

Action Items for Plan Sponsors:

Staying compliant with IRS contribution limits requires proactive oversight. Consider the following action items to ensure the plan operates smoothly and prevent errors.

- Know and understand the limits: Ensure an understanding of the IRS limits outlined in this guide, including how they apply.
- Educate the committee: Ensure plan committee members are trained on the limits and their implications for plan operations and compliance.
- Monitor annual updates: Review IRS announcements each year to confirm whether limits have changed and adjust the plan procedures accordingly.
- Evaluate payroll systems: Confirm that payroll functionality is configured to apply limits correctly and flag any overages or errors. This is particularly critical this year with several new options and restrictions related to catch-up contributions under SECURE 2.0.
- Coordinate with your recordkeeper: Check which processes the recordkeeper has in place to help monitor limits and support compliance, and validate interactions between their system and payroll feeds.
- Address errors promptly: If errors occur, ensure timely correction in accordance with IRS and DOL guidelines.
- Implement an audit process: Establish a regular audit review process to verify that limits are being applied accurately and consistently.
- Communicate both the opportunities – and new limits – with participants to ensure they are maximizing their savings options.



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