WEALTH MANAGEMENT

Is Your Client Perfect for the Super Catch-Up?

By Sandi Weaver, CPA, CFP, CFA

Do you have older clients with extra cash—perhaps from an inheritance, a bonus, or a generous severance package this year? If those clients are between 60 and 63, this is a great year to take advantage of the "super catch-up" contribution for 401k pensions on a pre-tax basis, which will lower taxable income.

The normal catch-up limit in 2025 for those 50 or older is $7,500. The super catch-up is $11,250 for clients ages 60 to 63, starting this year. If the latest retirement projection for your client shows a less-than-robust probability of success, this may help plug that hole.

This $11,250 super catch-up applies to 401k, 403b, government 457, and Thrift Savings Plans. The deferral limit is 150 percent of the normal "age 50" catch-up contribution limit for 2025 ($7,500). The limit will be indexed for inflation starting in 2026.

If your client is covered by a SIMPLE 401k or SIMPLE IRA pension, the super catch-up is $5,250 in 2025, instead of the normal $3,500 (or $3,850) catch-up for SIMPLEs.

One more item to check: the employer's plan description must allow for age 50 catch-ups. If your client's pension does not, then there's no super catch-up to work with.

The age 60-63 timeframe is typically the peak earning years for your client. Children are typically through school, and college tuition payments are over. This may give your clients an opportunity to drop out of a higher tax bracket, letting Uncle Sam pay part of these super catch-up savings. If your client is age 60, they can contribute $23,500 to a 401k (or 403b or 457b). Add in this $11,250 catch-up, and they can save a total of $34,750, a significant sum to keep off the tax return. If your client participates in a SIMPLE pension, then they can contribute $16,500 plus a super catch-up of $5,250, for a total of $21,750.

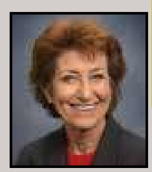
Having a discussion early in the year can let your clients adjust their budget and cash flows to take advantage. Not everyone can sock away $34,750 into a 401k in a single year but doing that at age 60 to let the money grow tax-deferred until it's withdrawn late in the retirement phase can pay off. They may have a deferred compensation plan at work which they can use, they can plan to direct bonus money toward this goal, or they may delay that family vacation splurge to 2026.

According to Vanguard's 2024 "How America Saves," only 14 percent of employees contribute the maximum to their pensions. For pensions allowing catch-up contributions, only 15 percent of those 50 or older contributed the additional catch-up dollars. You can help many of your clients by showing them the calculations and savings.

If your client is a high-income earner, 2025 may be their only opportunity to make the super catch-up on a deductible basis. Starting in 2026, those whose prior year Social Security wages were over $145,000 (indexed for inflation from December 2022) will be required to use after-tax Roth contributions. So the opportunity to have Uncle Sam foot part of the funds, through lower taxes, for the super catch-up will be a one-year phenomenon for them.

If, as is most likely, your client has limited cashflow to fund savings, they can consider tax-shifting whereby they defer large savings from their paycheck into their pensions and simultaneously tap a taxable savings account to compensate for the lower net pay amount on each paycheck. In essence, this drains a taxable account and builds a tax-deferred account. Your client will want to have enough years to make this pay off; life expectancy should be normal or better. It's more advantageous for clients who will enjoy a lower marginal tax rate once they retire. They want to ensure they will still have sufficient taxable savings remaining after this shifting for emergencies and planned short-term cash needs.

The super catch-up may be perfect for only selected clients, but it's a nice gem to take advantage of when possible. You can help your clients by exploring the possibilities for their situation.



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May—June 2025

THE ASSET

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