

Four Reasons Why the 2026 Roth Catch-Up Rule Creates Opportunities for Nonqualified Deferred Compensation Plans



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What is Changing? ^{1,2,3}

Originating from the SECURE 2.0 Act and beginning January 1, 2026, high-earning employees will no longer be allowed to make their 401(k) and 403(b) catch-up contributions on a pre-tax basis. Instead, people who earned FICA wages of more than \$145,000 in the previous year and would like to take advantage of the catch-up provision must do so with after-tax Roth contributions. As a result, these participants will lose the current-year tax deduction they would have received by making traditional (pre-tax) catch-up contributions. This \$145,000 income threshold will be adjusted each year for inflation, and it will not apply to the self-employed. Current catch-up limitations for 2025 are \$7,500 for people 50+. Individuals aged 60-63 are eligible for a “super catch-up”, currently \$11,250. The IRS will likely announce inflation-adjusted 2026 limits in late October/early November of this year.

Why This Matters for High Earners

Historically, high earners have leveraged catch-up contributions to lower their current taxable income. This was especially valuable for those in the top tax brackets, who could defer more pre-tax income to a traditional 401(k) once they turned 50. By shifting these contributions to Roth, the new rule effectively removes a key tax deferral strategy for high-income individuals—at least within the qualified plan space. For many executives and professionals, the Roth catch-up mandate feels like a tax acceleration. This is where nonqualified deferred compensation (NQDC) plans come into play.

What are Nonqualified Deferred Compensation Plans (NQDC)? ⁴

NQDC plans are arrangements that allow employees—usually executives or highly compensated individuals—to defer a portion of their salary or bonus to a future date, typically retirement. Unlike 401(k)s, NQDC plans are:

- Not subject to IRS contribution limits (like the 401(k)'s \$23,000 elective deferral limit or the \$7,500 catch-up).
- Not funded or protected like qualified plans—these are unsecured promises by the employer.
- Not required to offer Roth treatment (though some do).
- Structured to allow significant tax deferral, with income only taxed when it is actually received.

Why the Roth Catch-Up Rule Creates Opportunities for NQDC Plans⁵

1. Restoring Tax Deferral for High Earners

With Roth catch-up contributions, high earners lose the ability to defer income tax on those additional retirement savings. NQDC plans offer a workaround: Executives can defer substantially more income (well beyond the 401(k) limits) on a pre-tax basis into an NQDC plan. This restores the tax deferral that's lost due to the Roth rule.

2. Flexible Income Timing

NQDC plans allow participants to choose when their deferred compensation is paid out, often aligning with retirement or other lower-income years, when their marginal tax rate is expected to be lower. This kind of income smoothing becomes more valuable when Roth rules force taxable compensation into the current year.

3. Supplementing Retirement Income Beyond Qualified Plan Caps

For executives whose retirement savings are already capped by IRS contribution limits or the 415 compensation cap (\$345,000 in 2025), NQDC plans provide an uncapped alternative. Now that catch-up contributions can't be used to increase tax-deferred savings, NQDC becomes one of the few vehicles left for high-income earners to meaningfully supplement retirement income.

4. Employer Attraction and Retention Strategy

With more limited options in the qualified plan space, employers have a competitive opportunity: Offering an NQDC plan becomes a more compelling executive benefit, improving talent retention and satisfaction. In fact, the changing IRS landscape provides a strong business case for introducing or expanding NQDC offerings.

Strategic Implications and Call to Action

This rule change should prompt plan sponsors, HR teams and financial advisors to:

- Reassess their retirement plan lineups, especially for highly compensated employees.
- Consider adding or enhancing NQDC plans as a key component of total compensation.
- Educate high earners on the tax trade-offs between Roth catch-up contributions and deferred compensation strategies.
- Ensure that deferred comp elections are properly coordinated with other planning (e.g., tax bracket management, liquidity planning, estate considerations).

Final Thoughts

The IRS Roth catch-up rule for high earners may have been designed to generate more current federal tax revenue. High earners are essentially being compelled to pay additional current year taxation during what are likely to be the highest earning years of their lives. The side effect is clear: It reduces the tax-planning flexibility for executives in qualified plans. In doing so, it amplifies the strategic value of NQDC plans as a tax-advantaged savings vehicle.

For employers looking to stay competitive and for executives looking to optimize their tax and retirement strategies, NQDC plans are no longer just a niche tool; they are becoming a necessary part of the conversation in the new retirement planning landscape.

Sources

¹ [Treasury, IRS issue final regulations on new Roth catch-up rule, other SECURE 2.0 Act provisions | Internal Revenue Service](#)

² [‘Super catch-up’ 401\(k\) contributions for 2025 are still in play](#)

³ [Roth Catch-Up Contributions: What’s the Actual Effective Date?](#)

⁴ [Nonqualified Deferred Compensation Plans \(NQDCs\) | Fidelity Investments](#)

⁵ [Navigating SECURE 2.0: How Mandatory Roth Catch-up Contributions Impact Highly Compensated Employees](#)

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