Five Changes Coming to IRAs and 401(k)s in 2025

Changes coming to IRAs — Roth and traditional — and 401(k)s may mean more money for you in retirement.

Changes coming to IRAs may help you save more for retirement, but you've got to be alert. It's always a good idea to check once a year to see if any new rules or changes are coming to Individual Retirement Accounts (IRAs) and 401(k) accounts. That means keeping track of modifications to existing rules, such as raising contribution limits or updating the requirements for withdrawing money from your retirement accounts.

So, what's on the horizon? The SECURE 2.0 Act contained several changes to retirement plans that are being phased in over several years. These rules apply to traditional, Roth IRAs and 401(k)s; familiarizing yourself with them can help you save more money for retirement and avoid penalties.

Here are five changes coming to IRAs and 401(k)s in 2025:

1. Super-sized 401(k) catch-up contributions for people aged 60 to 63

Introduced by President George W. Bush in 2001, catch-up contributions allow employees age 50 and older to make additional deposits into their tax-advantaged retirement savings accounts.

The dollar amount is adjusted for inflation, though it may not change every year. The limit on catch-up contributions for 401(k)s in 2025 for taxpayers 50 and older is $7,500 — the same as it is in 2024, bringing the total contribution limit to $30,500. For 2025, eligible taxpayers can contribute $23,500 to their 401(k) account, up from $23,000 in 2024.

This new catch-up increases a participant's catch-up contribution amount. Effective for the 2025 tax year, active participants aged 60 through 63 can contribute the greater of $10,000 or 150% of the 2024 catch-up contribution limit that is indexed for inflation. For 2025, the max catch-up contribution is $11,250. In 2025, the total limit for 401(k) contributions for those aged 60 to 63 is $34,750. That number includes $23,500 contribution limit and a catch-up contribution of $11,250.

An account holder can take advantage of this additional catch-up contribution if they are between 60 and 63 by the end of the calendar year.

2. Automatic 401(k) Enrollment

In an effort to increase individual retirement savings, SECURE 2.0 requires new 401(k) plans established on or after December 29, 2022, to implement an automatic enrollment feature in 2025 unless an exception applies.

The initial automatic enrollment contribution amount must be at least 3% but not more than 10%. Each year thereafter, that amount is increased by 1 percent until it reaches at least 10%, but not more than 15%.

Automatic enrollment does not mean mandatory participation. Employees can change the rate or can opt out by electing a zero percent (0%) contribution rate.

3. SIMPLE IRAs and catch-up contributions for people aged 60 to 63

Annual employee deferrals to SIMPLE IRAs had a limit of $16,000 in 2024 but individuals aged 50 or older are allowed to make an additional "catch-up" contribution of $3,500, for a total of $19,500. In 2025, the contribution limit increases by $500 to $16,500. However, the catch-up contribution limit for those 50 and over remains the same.

Beginning in 2025, there will be an increase in the catch-up contribution limits for participants who have reached ages 60 through 63. The new catch-up contribution limit will increase to the greater of $5,000 or 150% of the regular age 50 catch-up contribution limit for SIMPLE IRA plans in 2025. Those who are 60, 61, 62, or 63 can contribute $5,250 more to SIMPLE plans for 2025. Cost of living adjustments will begin in 2026.

4. New 10-year rule for inherited IRAs takes effect

In general, for most beneficiaries, the new rules are fairly simple. If you inherited an IRA from someone who died on or after January 1, 2020, you are required to withdraw all funds in the IRA no later than December 31 of the tenth full calendar year following the death of the individual from whom you inherited the IRA.

This rule did away with the 'stretch IRA' strategy that allowed owners of IRAs to pass along the assets in the account from one generation to the next while taking advantage of prolonged tax-deferred growth of the assets by using a prolonged distribution period.

However, there are exceptions for inherited IRAs and the following four types of beneficiaries can still utilize the 'stretch IRA':

- Surviving spouses
- A child of the decedent under the age of 21
- A beneficiary who is not more than 10 years younger than the decedent
- An individual who is disabled or chronically ill

If you are one of the four types of beneficiaries described above, you must still withdraw funds from the inherited IRA over your lifetime beginning in the year following the decedent's death. A surviving spouse can transfer the inherited funds from the IRA into your own IRA and is not required to start withdrawing funds from your own IRA until you reach your "required beginning date" ("RBD").

5. Inherited IRA RMD penalties take effect

The IRS delayed the implementation of the final rules governing inherited IRA RMDs until 2025. However, the IRS has provided transitional relief for beneficiaries who did not take RMDs from their inherited IRAs in 2021 through 2024. Starting in 2025, a 25% penalty will be assessed for those who do not take their RMD.

2024 year-end reminders

- **401(k) Contribution limits and deadlines.** For most 401(k) plans, the deadline to contribute is December 31, 2024. This deadline also applies to participants who are 50 or older at the end of the calendar year 2024
- **IRA Contribution limits and deadlines**. You can make 2024 contributions to your Roth or traditional IRA until April 15, 2025.
- **Excess contributions**. If you exceed the 2024 IRA contribution limit, you can withdraw excess contributions from your account by the due date of your tax return (including extensions). If you don't you must pay a 6% tax each year on the excess amounts left in your account.
- **Required minimum distributions (RMDs)**. Remember that you face an excise tax on any RMD that you fail to take on time. You must calculate the RMD separately for each IRA that you own other than any Roth IRAs, but you can withdraw the total amount from one or more of your non-Roth IRAs.

Written by Donna LeValley, November 2024, for Kiplinger.com