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Three big changes to consider for retirement planning this year

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For retirement savers and retirees, the new year brings more than the usual inflation adjustments to retirement contributions. The retirement legislation known as Secure 2.0 will also continue to phase in, and the One Big Beautiful Bill Act will have impacts, too.

Here's a roundup of three key changes and some moves to consider.

High-income 401(k) investors

Thanks to a provision in the Secure 2.0 retirement legislation, high-income earners (with $150,000 or more in FICA income in the prior year) who are over 50 and investing in 401(k) or other company retirement plans must make catch-up contributions to their plans' Roth option, rather than traditional tax-deferred contributions, starting this year.

For 2026, 401(k) investors under 50 can contribute $24,500 to their company plans, plus $8,000 in catch-up contributions if they're over 50, for a total of $32,500. In addition, people age 60 to 63 can make "super-catch-up" contributions: $11,250 on top of $24,500.

Potential Action Items>> Some 401(k) plans may not have a Roth option, so those participants should instead consider making a full IRA contribution in addition to their baseline 401(k) contributions ($24,500).This year, the IRA contribution limit is $8,600 for people over 50 and $7,500 for those under 50. If you can invest even more than that, steer the overage to a taxable brokerage account.

A separate issue is how 401(k) investors should proceed if their goal is to make traditional tax-deferred contributions rather than Roth. Secure 2.0 forces higher-income older workers into Roth, at least with the catch-up portion of their contributions. In that case, workers can contribute the base 401(k) limit ($24,500) to the traditional tax-deferred option, with catch-up contributions directed to the Roth option.

Higher SALT deduction amounts

Thanks to OBBBA, taxpayers can now deduct a higher amount of state and local taxes. The SALT deduction cap was increased from $10,000 to $40,000 starting in 2025. It will revert to $10,000 in 2030.

Potential Action Items>> How is this related to retirement? The amount of SALT that's deductible phases out for higher-income taxpayers — those with modified adjusted gross incomes over $500,000. High-income earners should consider ways to come in under $500,000 if they're close. They might favor contributions to traditional tax-deferred retirement plans rather than Roth or max out their health savings accounts. Qualifying for the higher SALT tax deduction might also argue against strategies that increase income, such as converting traditional IRAs to Roth.

Of course, don't miss the forest for the trees. Strategies like making Roth contributions or converting IRAs might make sense long-term, even if they curtail the deductibility of SALT.

Senior deduction

Through 2028, people 65 and up can take advantage of a new $6,000 deduction. It's available whether you itemize or not and doubles to $12,000 for married couples filing jointly, assuming both are 65. For non-itemizers, the new deduction would stack on top of standard deductions.

Here's how the deductions look this year:

1. Single filers (standard deduction): $16,100

2. Single filers over 65: $16,100+ $2,050 + $6,000 = $24,150

3. Married couples filing jointly (standard deduction): $32,200

4. Married couples over 65 filing jointly: $32,200 + $1,650x2 + $6,000x2 = $47,500

Higher-income seniors, take note: Income limits apply. The deduction is reduced for single filers with modified adjusted gross incomes over $75,000 and married couples filing jointly with MAGI over $150,000. It goes away entirely for singles with MAGI over $175,000 and married couples filing jointly with MAGI of $250,000 or more.

Potential Action Items>> Early retirees who have a lot of control over their taxable income levels because they're not yet receiving Social Security or subject to required minimum distributions may be tempted to try to keep MAGI down to qualify for the full deduction. But it's wise to balance those aims alongside other worthwhile tactics, such as converting traditional IRA balances to Roth.

This article was provided to The Associated Press by Morningstar. ChristineBenz is director of personal finance and retirement planning for Morningstar.