RADiUS
Wealth Management LLC

A RADIUS WEALTH MANAGEMENT GUIDE FOR BUSINESS OWNERS

Starting a 401(k) Under SECURE 2.0

Plan types, 2026 contribution limits, the federal tax credits for small employers, and what it takes to get a plan running.

2026 LIMITS AND CREDITS

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WHY NOW

A Better Time to Start a Plan

Many owners assume a 401(k) is too expensive or complicated for a company their size. The SECURE 2.0 Act of 2022 changed the math, especially for businesses with 50 or fewer employees.

Three things have shifted in recent years:

- **Federal tax credits are larger.** Eligible small employers can receive credits toward the cost of starting a plan, for automatic enrollment, and for the contributions they make for employees, for up to five years.
- **Contribution limits are higher.** In 2026, employees can defer up to $24,500, with additional catch-up contributions from age 50. A 401(k) generally lets owners save more than a SIMPLE IRA, and at many income levels more than a SEP.
- **Employees expect it.** A retirement plan has become a standard part of a competitive benefits package, and many states now require employers without a plan to enroll employees in a state-run IRA program. (As of November 2026, Massachusetts and Florida do not have a mandate for most private employers, although Massachusetts lawmakers have considered one.)

This guide covers the decisions an owner needs to make and the numbers that matter for 2026. Your TPA and tax professional will confirm what applies to your business.

2026 limits at a glance

LIMIT	2026
Employee deferrals to a 401(k), 403(b) or most 457 plans	$24,500
Catch-up contribution, age 50 and over	$8,000
Higher catch-up, ages 60 to 63, in place of the $8,000 (if the plan allows)	$11,250
Total employee and employer contributions per person (not counting catch-ups)	$72,000
Maximum compensation that can be considered	$360,000
Highly compensated employee threshold (based on prior-year pay)	$160,000
SIMPLE IRA employee deferrals (higher limits may apply to some employers)	$17,000

Source: IRS Notice 2025-67. Limits are adjusted for inflation each year.

YOUR OPTIONS

Choosing a Plan Type

PLAN	OFTEN FITS	CONTRIBUTIONS	TESTING & ADMIN
Safe harbor 401(k)	Companies where owners and key employees want to contribute the maximum.	Employee deferrals, plus a required employer contribution: for example, 3% of pay for all eligible employees, or a match of up to 4% of pay.	Exempt from the annual deferral and match tests (ADP/ACP). Required notices each year.
Traditional 401(k)	Companies that want full flexibility over employer contributions.	Employee deferrals; employer match and profit sharing are optional and can vary year to year.	Annual nondiscrimination testing can limit what highly paid employees contribute.
401(k) with profit sharing	Owner-heavy firms (professional practices, family businesses).	Adds a discretionary employer contribution that can be allocated by formula, sometimes favoring older or higher-paid groups within the rules.	Requires an experienced TPA to design and test each year.
SIMPLE IRA	Businesses with up to 100 employees wanting minimal administration.	Lower employee limit ($17,000 in 2026); employer must match up to 3% or contribute 2% of pay.	No testing and no Form 5500, but no loans, no Roth in many cases and no other plan allowed.
SEP IRA	Owners with few or no employees who want employer-only contributions.	Employer contributes the same percentage of pay for all eligible employees, up to 25% of pay.	Very simple; no employee deferrals.
Solo 401(k)	Owners with no employees other than a spouse.	Employee deferrals plus an employer contribution, up to $72,000 combined, plus catch-ups.	Form 5500-EZ once plan assets exceed $250,000.

Design choices inside a 401(k)

- **Eligibility.** Many plans let employees join at hire or after a short wait. The law allows up to age 21 and one year of service, but long-term part-time employees (500 or more hours in each of two consecutive years) must be allowed to defer.
- **Employer contribution.** A match encourages saving; a nonelective contribution goes to everyone eligible. Safe harbor formulas trade a required contribution for relief from testing.
- **Vesting.** Employer contributions can vest over time, which can reduce costs when turnover is high. Most safe harbor contributions must be fully vested.
- **Roth.** Since 2026, employees whose prior-year FICA wages exceeded $150,000 must make any catch-up contributions as Roth. A plan without a Roth option cannot offer those employees catch-ups. Loans and hardship withdrawals are optional.

Federal Tax Credits for Small Employers

A tax credit reduces the tax a business owes dollar for dollar, which makes it more valuable than a deduction of the same amount. Eligible employers generally had no more than 100 employees who earned at least $5,000 in the prior year, and must have at least one non-highly compensated employee in the plan. Credits are claimed on IRS Form 8881.

CREDIT	HOW IT WORKS	HOW LONG
Startup cost credit	Covers ordinary and necessary costs the employer pays to set up and run the plan and educate employees. For employers with up to 50 employees, the credit is 100% of those costs (50% for 51 to 100 employees), up to the greater of $500 or $250 for each eligible non-highly compensated employee, with a $5,000 annual cap.	First three years
Automatic enrollment credit	$500 a year for adding an eligible automatic contribution arrangement, to a new or an existing plan.	Three years
Employer contribution credit	Up to $1,000 per employee for employer contributions made for employees earning up to an inflation-adjusted wage limit (originally $100,000). The credit is 100% of eligible contributions in years one and two, 75% in year three, 50% in year four and 25% in year five. For employers with 51 to 100 employees, the percentage is reduced by 2 points for each employee over 50. Does not apply to defined benefit plans or to employees' own deferrals.	First five years

The startup and employer contribution credits generally are not available if the employer, or a related employer, maintained a plan covering substantially the same employees in the three years before. Costs and contributions that produce a credit can't also be deducted.

A hypothetical example

A company with 20 employees, 18 of them non-highly compensated, starts a 401(k) with automatic enrollment. Its startup and administration costs are $4,000 a year, and it contributes $1,000 for each of 15 employees under the wage limit.

CREDIT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Startup cost credit	$4,000	$4,000	$4,000	–	–
Automatic enrollment credit	$500	$500	$500	–	–
Employer contribution credit	$15,000	$15,000	$11,250	$7,500	$3,750
Total	**$19,500**	**$19,500**	**$15,750**	**$7,500**	**$3,750**

Hypothetical and simplified, for illustration only. Actual credits depend on eligibility, plan type, costs, contributions, the employer's tax situation and limits on general business credits. Confirm with your tax professional.

NEW RULES FOR NEW PLANS

Automatic Enrollment Is Now Required for Most New 401(k)s

SECURE 2.0 requires most 401(k) and 403(b) plans established after December 29, 2022 to automatically enroll eligible employees, starting with plan years beginning in 2025. Employees can opt out or choose a different rate. The required features:

- an initial automatic contribution of at least 3% and no more than 10% of pay;
- an automatic increase of 1 percentage point each year until the rate reaches at least 10%, and no more than 15%;
- a default investment for employees who don't choose one, and the required notices before each plan year; and
- the option for a newly enrolled employee to withdraw automatic contributions within the plan's permitted window.

WHO IS EXEMPT

Businesses that normally employ 10 or fewer employees, and businesses that have existed for less than three years (both exemptions end as the business grows or ages); SIMPLE 401(k) plans; church and governmental plans; and plans established before December 29, 2022.

Automatic enrollment tends to raise participation meaningfully, which can also help a traditional 401(k) pass its annual testing. And it is what the $500 automatic enrollment credit rewards.

GETTING STARTED

A Typical Setup Timeline

Weeks 1 – 2	Discuss goals: who should be covered, what the company can contribute, what owners want to save. Compare plan types and get proposals.
Weeks 2 – 4	Select the recordkeeper, TPA and adviser. Sign the plan document and service agreements. Choose the investment lineup and default investment.
Weeks 4 – 6	Connect payroll. Send required notices. Hold an enrollment meeting so employees understand the plan and the match.
First payroll	Deferrals begin. Check the first deposits against payroll, and confirm they reach the plan promptly.

A new safe harbor 401(k) generally must be in effect for at least three months of its first plan year, so a calendar-year plan typically needs to start by October 1. Other deadlines can allow a plan to be adopted after year end, up to the business's tax filing deadline, for employer contributions. Ask your TPA which deadlines apply.

What a 401(k) Can Mean for the Owner

Owners often start a plan for their team and find it is also one of the most effective tax-deferred savings tools available to them. A hypothetical owner, aged 52, with $200,000 of W-2 pay in a safe harbor 401(k) with profit sharing:

CONTRIBUTION	2026 AMOUNT
Employee deferral (pre-tax or Roth)	$24,500
Age 50+ catch-up	$8,000
Employer safe harbor and profit sharing contributions, up to the $72,000 total limit	up to $47,500
Potential total for the year	**up to $80,000**

Hypothetical. Employer contributions depend on plan design, compensation, the 25%-of-payroll deduction limit, contributions for other employees and annual testing. Because this owner's prior-year wages exceed $150,000, the catch-up must be made as Roth, so the plan needs a Roth option. Owners of pass-through businesses and sole proprietors calculate contributions differently. Confirm with your TPA and tax professional.

For owners who want to save even more, often in professional practices, a cash balance plan can be added alongside the 401(k). We cover that in our guide for dental and medical practices.

Before you start: questions to answer

- ☐ How many employees do we have, and how many would be eligible in the first year?
- ☐ What can the company afford to contribute each year, and should that be fixed (safe harbor) or flexible?
- ☐ How much do the owners and key employees want to save?
- ☐ Do we, or any company under common ownership, have or recently have had another retirement plan?
- ☐ Who will be responsible for the plan internally, and how much time can they give it?
- ☐ Which fees will the company pay, and which will come from participant accounts?
- ☐ Does our payroll provider integrate with the recordkeepers we are considering?

A COMPLIMENTARY PLAN DESIGN CONVERSATION

Radius Wealth Management helps business owners design and launch 401(k) plans with a national recordkeeper and an independent third-party administrator. We will walk through the plan types that fit your company, estimate what the company would contribute, and outline the tax credits that may apply, then coordinate the setup with your payroll and tax professional. There is no cost and no obligation. If you later hire Radius as your plan's adviser, we are paid an advisory fee, which we disclose in writing before you decide. Start at **radiuswealth.com/business-owners** or call **(617) 765-2200**.

RELATED GUIDES FOR EMPLOYERS

- *The 401(k) Fiduciary Checklist*: what running a plan well looks like
- *Retirement Plans for Dental and Medical Practices*: 401(k), profit sharing and cash balance plans

SOURCES

- IRS Notice 2025-67 (2026 cost-of-living adjustments); IRS, *Retirement Plans Startup Costs Tax Credit*; Form 8881 and instructions; *Choosing a Retirement Plan* publications.
- SECURE 2.0 Act of 2022 (Division T of the Consolidated Appropriations Act, 2023): section 101 (automatic enrollment), section 102 (startup and employer contribution credits), section 125 (long-term part-time employees), section 603 (Roth catch-up); IRS final catch-up regulations (2025).
- Internal Revenue Code sections 45E, 45T (automatic enrollment credit, added by the SECURE Act of 2019, section 105), 401(k), 402(g), 414A, 414(v) and 415(c).

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