50 and Older? Here's Your Chance to Catch Up on Retirement Savings

If you are age 50 or older and still working, you have a valuable opportunity to super-charge your retirement savings while managing your income tax liability.

Catch-up contributions offer the chance to invest amounts over and above the standard annual limits in IRAs and workplace retirement plans.

2023 Limits

In 2023, the IRA catch-up limit is an additional $1,000 over the standard annual amount of $6,500.

Participants in 401(k), 403(b), and government 457(b) plans can contribute an extra $7,500 over the standard limit of $22,500. For SIMPLE plans, the catch-up amount is $3,500 over the standard limit of $15,500.[1]

Tax Benefits

Contributions to traditional workplace plans are made on a pre-tax basis, which reduces the amount of income subject to current taxes. Contributions to traditional IRAs may be deductible, depending on certain circumstances.

If you are not covered by a retirement plan at work, your traditional IRA contributions are fully tax deductible. If you are covered by a workplace plan, you may deduct the full amount if your adjusted gross income is $73,000 or less as a single taxpayer or $116,000 or less if you're married and file jointly. If you are not covered by a workplace plan but your spouse is, you are eligible for a full deduction if you file jointly and your income is $218,000 or less.[2]

Contributions to Roth accounts do not offer immediate tax benefits, but qualified distributions are tax-free at the federal, and possibly state, level. A qualified distribution is one made after the account has been held for five years and the account owner reaches age 59½, dies, or becomes disabled.

Distributions from traditional accounts prior to age 59½ and nonqualified distributions from Roth accounts are subject to ordinary income taxes and a 10% penalty unless an exception applies.

1) Participants in 403(b) and 457(b) plans may benefit from other catch-up contributions specific to each plan type. Participants in government 457(b) plans cannot combine age 50 catch-up contributions with other catch-up contributions. When calculating allowable annual amounts, contributions to all plans except 457(b)s must be aggregated.

2) Phaseout limits apply. Married couples filing separately cannot take a full deduction. You must have earned income at least equal to your IRA contribution. Talk to a tax professional.

Clelan and Company, 210 Grandview Avenue, Suite 101, Camp Hill, PA 17011
www.clelan.com   financialpro@clelan.com