OPAL WEALTH ADVISORS

Using Catch-Up Contributions to Improve Retirement

Good financial planning is important at any age, but it's especially critical once you reach your 50s.

It's a great time to stop and reflect on your accomplishments—but also to think about what you'd like to achieve moving forward. And because retirement still may be 10 or even 20 years away, there's plenty of time to fix old mistakes and find new strategies to build a more secure future.

If you're like most Americans, part of that process will likely include looking for new ways to ramp up your retirement savings. After all, the money you contribute to your retirement account now will help provide the income you need—and the lifestyle you want—when you're no longer earning a paycheck.

One option for giving your nest egg an extra boost, now that you're 50 or older, is to start making "catch-up contributions" to your 401(k) or IRA.

In the year you turn 50, the IRS increases the amount you're allowed to contribute to most retirement accounts. So you now have an opportunity to grow your retirement savings faster and get a bigger tax break.

Which makes catch-up contributions a strategy worth considering if you're worried about a savings shortfall—or even if you've been a diligent saver, hitting the standard contribution limit all these years.

This guide will provide an overview of catch-up contributions, including what they are, how they can grow your savings as you near retirement, and the current contribution limits set by the IRS for various retirement plans. If you'd like more information about this strategy and others that could help you reach your retirement goals, your Opal financial advisor can make recommendations based on your individual needs.

What Are Catch-Up Contributions?

In the year you turn 50, you become eligible to contribute more money to your retirement account than younger workers are allowed under the IRS' standard contribution limits. This can help you build your retirement savings and save money on your annual tax bill. Savers can make catch-up contributions to most types of retirement plans, including a workplace 401(k), a traditional IRA or a Roth IRA.

DO YOU HAVE TO WAIT FOR YOUR BIRTHDAY TO INCREASE YOUR CONTRIBUTION?

No. Even if you won't turn 50 until December 31, you can make the entire catch-up contribution for that calendar year. And you can bump up your automatic payroll deduction at any time in the year to reflect the higher contribution amount.

HOW MUCH MORE CAN YOU CONTRIBUTE?

The IRS sets different catch-up limits for different types of retirement plans. You must first reach your plan's standard individual contribution limit for the year, and then you can add the catch-up contribution. Here's a quick summary of what both contribution limits look like for 2023:

Savings Plan	2023 Contribution Limit: Under 50	2023 Contribution Limit: 50 and Over
Traditional 401(k) and Similar Plans	$22,500	$30,000
Traditional or Roth IRA	$6,500	$7,500
SIMPLE IRA or SIMPLE 401(k)	$15,500	$19,000
SEP IRA	$66,000	$66,000

Source: irs.gov.

And here's more information on using catch-up contributions for those plans:.

401(k)s and Similar Plans. The catch-up contribution limit for workplace plans like 401(k)s, 403(b)s, most 457 plans, and the government's Thrift Savings Plan (TSP) is $7,500. That's on top of the $22,500 standard individual contribution for this type of plan, for a total of $30,000.

If your employer's plan allows you to make after-tax contributions, you can save even more. The 2023 total contribution limit from all sources (including your employer's contributions) is $66,000 for younger workers and $73,500 for participants ages 50 or older.

The IRS requires participants in these types of plans to make catch-up contributions by the end of the calendar year.

Traditional and Roth IRAs. The catch-up contribution limit for a traditional or Roth IRA is $1,000. That's on top of the $6,500 standard contribution for the year, for a total of $7,500.

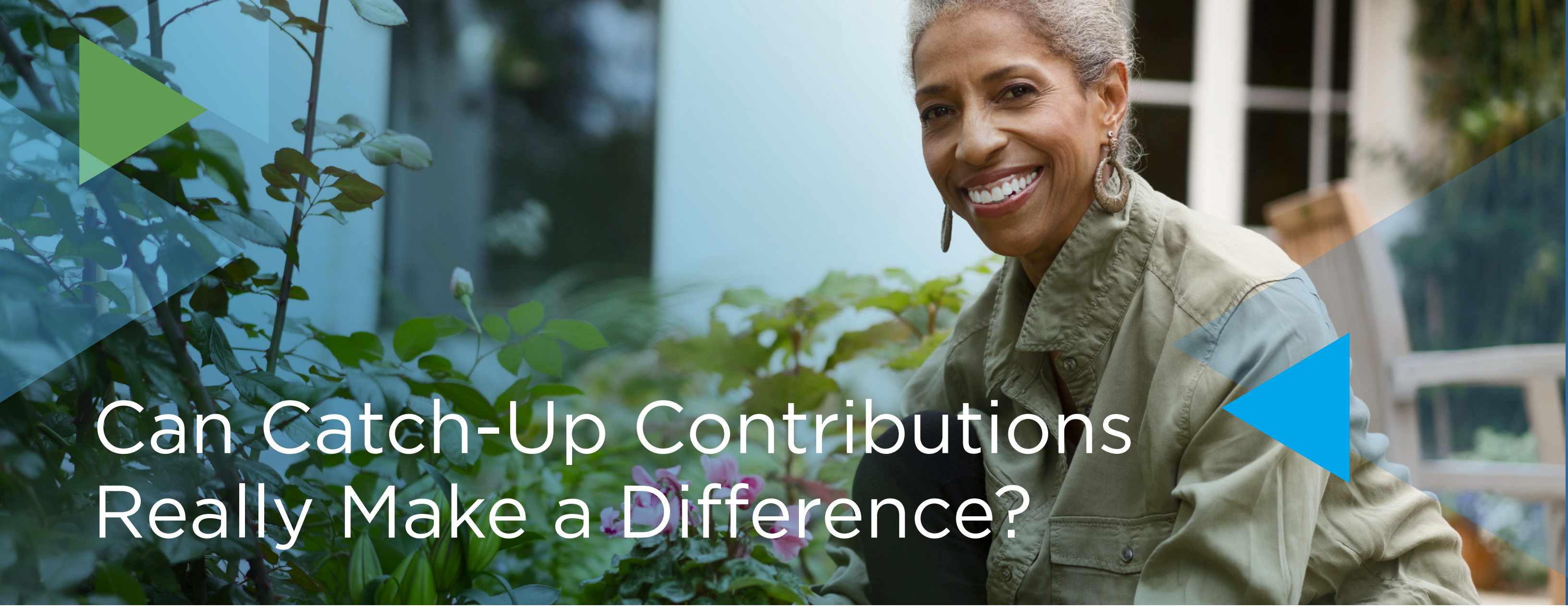
If you have both a traditional and Roth IRA, you can split your contributions between the two types, but the total contribution limit is still $7,500 for those 50 and older.

Catch-up contributions to an IRA must be made by the due date of your tax return (not including extensions). In 2023, that's April 18.

SIMPLE IRAs and SIMPLE 401(k)s. A SIMPLE IRA or a SIMPLE 401(k) plan may permit annual catch-up contributions of up to $3,500. The standard contribution limit for SIMPLE accounts is $15,500, so that's a total of $19,000.

The contribution rules for these tax-deferred employer-provided retirement plans are a little different than other retirement accounts. You can get more information at the IRS website, www.irs.gov.

SEP IRAs. Catch-up contributions are not permitted in SEP plans. The standard limit on an SEP IRA is 25% of the employee's compensation or $66,000.



Can Catch-Up Contributions Really Make a Difference?

Putting a few thousand dollars extra toward your retirement savings each year may not sound like much, but that additional money has the potential to grow quickly with the magic of compounded growth.

Let's say you reached your 401(k) contribution limit this year, but even though you turned 50, you didn't make a catch-up contribution. If you earned an annual return of 6% on that $22,500 investment, in a year your account would hold $23,850.

But if you made the maximum $22,500 contribution and the $7,500 catch-up contribution, and earned that same 6%, your account would hold $31,800. And with that extra money going in—and growing—every year for another 10 to 15 years or more, you could significantly improve your 401(k) balance in the time leading up to retirement.

And remember, you'll also be saving on your annual tax bill when you make those larger deferred contributions. You won't pay taxes on the money until you withdraw it in retirement—and by then you may be in a lower tax bracket, paying a lower tax rate.

You also may benefit if your employer matches a percentage of your contributions. And if you and your spouse both use catch-up contributions, you can increase your savings even more.

WHAT IF YOU CAN'T MAX OUT YOUR CONTRIBUTIONS?

Not everyone can afford to take full advantage of catch-up contributions. For some, the idea of setting aside $30,000 this year in a 401(k) may seem a little daunting but any amount you can manage to stash in your account will help.

Most financial advisors recommend saving at least enough in your 401(k) to get your employer's maximum matching contribution. Anything over that would further shore up your savings and provide the income you'll need when you retire.

And it's never too late to get started. You may have delayed contributing as you worked toward other goals—buying a house, for example, or putting your kids through college. But if your salary has grown, your kids are grown, or your mortgage is close to being paid off, it may be time to bump up the amount you contribute and get the benefits of tax-deferred savings.

If, on the other hand, you expect your tax rate to increase in retirement, you may want to make the maximum contribution to a Roth IRA and set yourself up for tax-free withdrawals.

How Do You Make Catch-Up Contributions?

If you have a workplace retirement plan, you can probably go online and make the change yourself, or you can contact your plan administrator. If you have an IRA, you may be able to make the change online or with the help of your financial advisor.

You can adjust your contribution amount any time during the year that you will turn 50; you don't have to wait for your birthday.

You must make your 2023 catch-up contributions to your workplace retirement plan before the end of the year. For IRAs, you have until the filing deadline for your 2023 tax return, which will be April 15, 2024.

If you aren't turning 50 this year but you're interested in making catch-up contributions in the future, be sure to check the newest limits for your type of retirement account before you set your amounts. The IRS lists up-to-date catch-up limits on its website, www.irs.gov.

LOOKING FOR MORE INFORMATION?

The IRS covers several topics of interest to savers who are preparing for retirement at www.irs.gov. But if you want or need more information, the team at Opal Wealth Advisors can offer advice specific to your situation, including other strategies to help get your retirement savings on track. Contact us at **888-703-OPAL** or **schedule a free consultation** today.

KEY TAKEAWAYS

- In the year you turn 50, the IRS increases the amount you're allowed to contribute to most retirement plans. These "catch-up contributions" provide an opportunity to grow your retirement savings faster and get a bigger tax break.
- The IRS has different catch-up limits for different types of retirement plans.
- You must first reach your plan's standard individual contribution limit for the year, then you can add the catch-up contribution.
- Even if you won't turn 50 until December 31, you can make the entire catch-up contribution for that calendar year.
- Catch-up contributions to an IRA must be made by the due date of your tax return. Catch-up contributions for 401(k)s and similar plans must be made by the end of the calendar year.