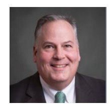
# How You Can Boost Retirement Savings with Catch-Up Contributions

Set aside more money for retirement with this valuable savings method.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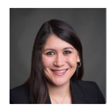
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### KEY INSIGHTS

- Turning 50 can mark an important milestone for your retirement savings plan.
- Catch-up 401(k) and IRA contributions allow people who are 50 and older to benefit from additional tax-advantaged savings.
- Over time, these higher catch-up limits for defined contribution plans can help you increase your total retirement savings.
- In 2024, individuals can save an additional $7,500 in their 401(k) and $1,000 in their IRA after maxing out employee deferrals.

Investing as much as you can, as early as you can, is the ideal strategy when it comes to retirement savings — especially considering issues around Social Security's funding. However, even the most diligent investors can find themselves falling short of their retirement plan target. You may have experienced a savings lapse along the way due to a job loss or time off to care for family, or your anticipated income needs in retirement may have increased. But there are steps you can take to improve your situation and get your savings on track. Catch-up contributions to tax-advantaged retirement plans are one way you can make up for lost time if you are age 50 or older, and are a valuable tool for hitting your savings goals.

## What Is the Catch-Up Contribution Limit for 2024?

In 2024, eligible workers can save an additional $7,500 in their 401(k) after maxing out employee deferrals at $23,000, and an additional $1,000 in their IRA after maxing out employee deferrals at $7,000. By the start of 2026, all individuals in higher tax brackets contributing to 401(k), 403(b), and governmental 457(b) plans will only be able to make catch-up contributions to after-tax Roth accounts. This change applies to workers who earned more than $145,000 from a single employer.

## SECURE 2.0 Act Catch-Up Changes

Starting on January 1, 2025, individuals ages 60 to 63 will be able to make larger catch-up contributions to employer-based retirement plans thanks to the SECURE 2.0 Act. The limit for people in that age

## 2024 Catch-Up Contribution Limits

In addition to the annual contribution limits, investors age 50 and older can save even more in the years leading up to retirement.

| Account Type | Contribution Limit | Catch-Up Limit (for ages 50+) |
|---|---|---|
| **401(k)** | $23,000 | $7,500 |
| **IRA** | $7,000 | $1,000 |

range will be the greater of $10,000 or 150% of the standard catch-up limit for that year. Starting in 2026, the $10,000 comparison limit will be indexed for inflation annually. For example, if the standard catch-up contribution limit remains at $7,500 in 2025, a 60-year-old investor would be permitted to contribute an extra $11,250 to their 401(k) plan that year and the same amount (or greater) in each of the three years after ($7,500 multiplied by 1.5).

Also, the current IRA catch-up contribution amount of $1,000 will be indexed for inflation starting in 2024. For high-income earners (over $145,000 from one employer), all catch-up contributions in employer plans after 2025 will need to be made to Roth accounts.

### What Are the Rules for 401(k) Catch-Up Contributions?

Catch-up contributions are a way to help investors save more in the years leading up to retirement. Beyond the annual catch-up contribution limits, there are no additional rules specific to catch-up contributions for investors to consider.

### How Do Catch-Up Contributions Work?

Catch-up contributions work just like typical 401(k) or IRA contributions—you simply need to adjust your pre-tax deferral amounts. T. Rowe Price recommends saving 15% of your annual income for retirement, but for investors who have not been able to maintain that pace, catch-up contributions provide an extra boost. People with high incomes may have found it difficult to achieve a 15% savings target in their workplace plans due to the standard contribution limits for defined contribution plans. The availability of catch-up contributions may make it easier to set aside more funds through payroll deductions.

### Case Study: The Power of Catch-Up Contributions

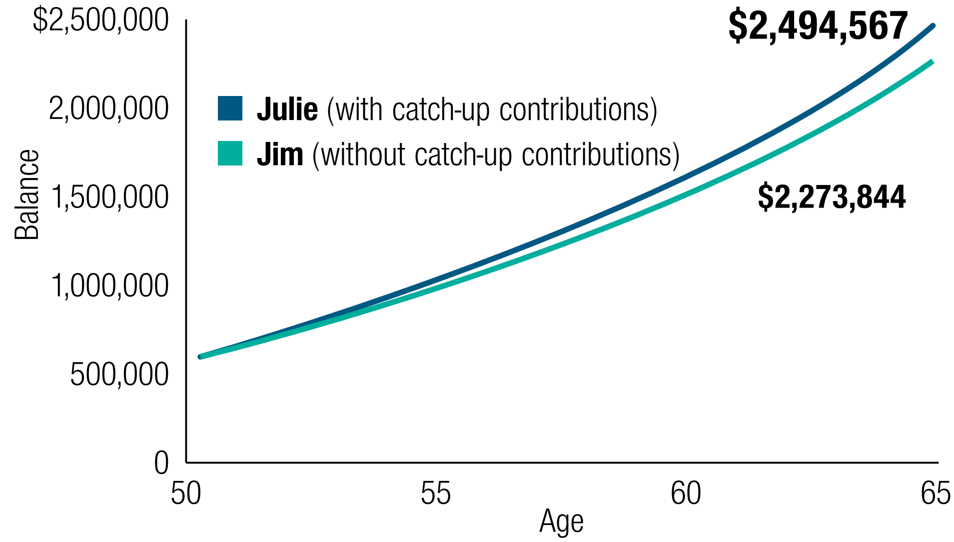
Taking advantage of annual catch-up contributions can make a significant difference over the years left to save before retirement, whether it be in a traditional IRA, a SIMPLE IRA, or some other tax-advantaged retirement plan.

Consider two investors who each earn $170,000 a year. At age 49, Julie and Jim each have $600,000 saved in their 401(k)s. They currently save up to the 401(k) contribution limits set by the IRS each year through payroll deductions of $23,000, which represents 13.5% of their salaries. When they both turn 50, however, only Julie takes advantage of 401(k) catch-up contributions, saving an additional $7,500 annually—as much as the 2024 401(k) catch-up limit allows. Jim continues to save at the standard limit.

By the time they both turn 65, Julie could have saved nearly an additional $221,000 for retirement, representing a 9.7% increase over Jim's savings. (See The Catch-Up Effect.)

## The Catch-Up Effect

How beneficial can catch-up contributions be? In the illustration below, Julie is able to save nearly an additional $221,000 by making catch-up contributions to her 401(k).




Assumes a 7% annual return and steady contribution and catch-up limits, except for the 4 years between ages 60–63 when Julie contributes the allowable, higher catch-up amount of $11,250.. All charts and tables are shown for illustrative purposes only and are not meant to represent the performance of any specific investment.

### Limitations of IRA Catch-Up Contributions

IRA catch-up contributions work similarly, providing a potential savings boost for investors with earned income who may not have access to a 401(k) plan. However, they wouldn't be ideal options for Julie or Jim, as their income levels mean any contributions to a Traditional IRA would not be deductible. In addition, their income exceeds the 2024 Roth IRA contribution limit of $161,000 (for single filers). But for investors who can make a tax-deductible IRA contribution, saving an additional $1,000 each year can lead to an extra $25,100 saved in an IRA, simply by leveraging catch-up contributions from age 50 through age 65.[1]

### How to Catch Up and Get Back on Track

Finding extra money in your budget to save for retirement might be difficult, but the same principles that guided your savings plan early in your career still apply when you're age 50 or older: Save as much as you can, as early as you can. There are two key things you can do to help ensure you hit your goals:

**First, ensure that you are making full use of 401(k) and IRA contribution limits to set aside 15% of your salary.** This target can be achieved through a combination of saving in a 401(k) and a Traditional or Roth IRA, as is appropriate. If you are a small business owner, or are a small business employee, try to max out your contributions to your SIMPLE IRA.

If needed, identify additional funds in your household budget that could be redirected toward retirement savings to reach those 2024 contribution limits and catch-up contribution limits.

[1] Assumes a 7% annual return and contributions of $1,000 per year, from age 50 through age 65.

If you have a spouse or partner, evaluate your retirement savings as a couple. If you are married filing jointly, but only one spouse is earning income, you might consider saving for retirement for the spouse who isn't working through a spousal IRA to increase your maximum contribution as a couple.

**Second, consider scheduling gradual increases to your contributions each year or earmark any new flexibility in your budget toward your retirement accounts.** Investors in their 50s, for example, may have additional income available once they have achieved other savings goals, such as saving and paying for their children's college or paying off their mortgage. They may also be entering their peak earning years, which could mean larger raises or bonuses. All of those offer opportunities to catch up on retirement savings.

If you've been maximizing your savings in your tax-advantaged accounts and you have supplemented that savings effort by setting aside money in a taxable account, consider reallocating some of those taxable savings to catch-up IRA or 401(k) contributions. This decision will depend on your situation, including how much you've already saved, and the timing of your goals.

### Closing the Savings Gap

Catch-up contributions can make a big difference, depending on the size of your savings gap and your ability to save more. Even if your savings plan is on track, the higher limits can also help you build additional savings and add flexibility in your retirement income plan. Whether or not catch-up contributions make sense in your situation, the age-50 milestone can be an opportunity to evaluate your progress and celebrate your achievements.

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