

# COULD CATCH-UP CONTRIBUTIONS BE A GAME-CHANGER FOR YOUR RETIREMENT?



RETIRE WISE

For investors nearing retirement, catch-up contributions can potentially make the difference between an uncertain financial future and a comfortable retirement.

## What are catch-up contributions?

Catch-up contributions are the additional amounts savers age 50 and older can contribute to tax-advantaged retirement accounts each year, beyond the plan's standard limit. In 2024, investors age 50 and over can contribute an extra:

- \$1,000 to traditional or Roth Individual retirement accounts (IRAs) on top of the standard \$7,000 limit, for a total of \$8,000
- \$3,500 above the \$16,000 limit for self-employed individuals with a SIMPLE IRA, for a total of \$19,500
- \$7,500 above the \$23,000 401(k) plan limit, for a total of \$30,500

## The benefits can add up fast

Catch-up contributions help retirement savers make up for the years they didn't save enough, while providing the same tax advantages as regular account contributions. The ability to contribute more money on a pre-tax basis can help lower your current taxable income even further. And since earnings in both traditional and Roth accounts grow tax-deferred, that money has the potential to grow faster over time than in a comparable taxable account.

For example, a 50-year-old 401(k) plan participant who plans to retire at 67 has 17 years to save for retirement. By investing \$23,000 a year (the standard contribution limit for 2024) at a 7% average annual rate of return for 17 years would result in an account value of \$750,000. (That doesn't include any matching contributions from employers.) If the same investor took advantage of catch-up contributions to invest the maximum \$30,500 annually, with the same rate of return, the account value would be approximately \$993,000 in 17 years, for a difference of \$243,000. Only \$127,500 of that is attributed to catch-up contributions. The remainder is from account earnings.<sup>1</sup> Keep in mind, market conditions and plan contribution limits are subject to change over time, so actual performance results will differ and may be more or less than indicated in this hypothetical example.\*

Higher earners may want to take advantage of opportunities to help lower their tax burdens by making pre-tax catch-up contributions in 2024 and 2025. That's because a new rule will require catch-up contributions to be made on an after-tax basis to a Roth account for anyone with annual earnings of \$145,000 or more, beginning in 2026. However, keep in mind, as long as certain criteria are met, Roth account distributions are tax-free in retirement.

To learn more about moving closer to your retirement goals, call the office to schedule a time to talk.

1)Hagen, Kailey, "Using 401(k) Catch-Up Contributions to Increase Your Savings." Fool.com, 5 FEB 2024, <http://www.fool.com/retirement/plans/401k/catch-up-contribution/>.

\*This hypothetical example is used for comparison purposes and is not intended to represent the past or future performance of any investment. Fees and other expenses were not considered in the illustration. Actual returns may vary.

## Keeping Cool: Tips for Beating the Summer Heat

Even before summer officially began this year, many parts of the country had already experienced record high temperatures. While heat waves can pose health risks for people of any age, young children and adults age 65 and over are particularly vulnerable to extreme temperatures. That's because older adults are more likely to have chronic medical conditions or take prescription medications that can affect the body's ability to control its temperature.

Being overheated can cause serious health problems, including heat edema (swelling of the feet and ankles), heat exhaustion, and heat stroke, which is a medical emergency. Signs of heat stroke include fainting; confusion; dry, flushed skin (not sweating); strong, rapid pulse; or a slow, weak pulse. When someone displays these symptoms, they should seek medical help right away and immediately move inside or into the shade.<sup>1</sup>

## Tips for keeping your cool all summer long

The National Institute on Aging suggests the following for keeping your cool when temperatures soar:

- Hydrate by drinking plenty of fluids throughout the day, such as water and drinks containing electrolytes. Avoid alcohol and caffeine which can have a dehydrating affect, especially if you're spending time outdoors in the sun.  
Wear loose-fitting, light-colored clothing to help deflect heat, and a wide-brimmed hat to protect your head, neck, and face from the sun.
- Limit time outdoors to early morning or evening when temperatures are cooler and seek shade whenever possible.  
Use ceiling fans or portable fans to increase air circulation inside.
- Keep window shades, blinds, or curtains closed during the hottest part of the day.
- Avoid using the oven or running the dryer when daytime temperatures peak, to conserve energy and keep indoor spaces cooler.
- Check on older neighbors who live alone. If you live alone, ask a friend, neighbor, or family member to check on you periodically.

1)"Hot Weather Safety for Older Adults." Nia.nih.gov, 2 SEP 2022, <http://www.nia.nih.gov/health/safety/hot-weather-safety-older-adults>



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Some IRAs have contribution limitations and tax consequences for early withdrawals. For complete details, consult your tax advisor or attorney.

Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59 ½, may be subject to an additional 10% IRS tax penalty.

To qualify for the tax-free and penalty-free withdrawal or earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59 ½ or due to death, disability, or a first-time home purchase (up to a \$10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.

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