Retirement savings—playing catch-up

Savings strategies to make up for lost time

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Perhaps the best way to catch up is to capitalize on higher contribution limits on tax-advantaged retirement accounts that may be available to you depending upon your age and income. If you have access to an employer-sponsored retirement plan, such as a 401(k) or a 403(b) plan, you may contribute up to a maximum of $18,000 for the 2016 tax year. Note that this maximum is established by the federal government, and employers may impose lower amounts. You may want to contact your employer to determine the rules that pertain to your plan.

Workers aged 50 and older may be eligible to contribute an additional $6,000 catch-up contribution to an employer-sponsored plan for 2016. Note that you are first required to contribute the $18,000 maximum before adding the catch-up amount. If you can afford to contribute the maximum to your plan, and you are eligible for the catch-up contribution, you could contribute $24,000 toward your retirement savings for 2016 alone.

IRA benefits

If you can afford to supplement an employer-sponsored plan with additional savings, consider maintaining an IRA. You can open an IRA at virtually any financial institution, and you may be able to select from a wide array of investments that suit your risk tolerance and time horizon. The maximum annual contribution for the 2016 tax year is $5,500, and investors aged 50 and older may make an additional $1,000 catch-up contribution.

When funding an IRA, you may have a choice of a traditional IRA or a Roth IRA. Anyone with earned income may fund a traditional IRA, and contributions may be tax deductible if you meet income thresholds established by the IRS. With a traditional IRA, investors historically have been mandated to take annual required minimum distributions (RMDs) after age 70½. The amount of the RMD is determined by the investor's life expectancy and the account balance as of December 31 of the prior tax year. RMDs are taxed as ordinary income, and failure to withdraw the required amount triggers a fine imposed by the IRS.

To fund a Roth IRA, you must meet income thresholds ($117,000 for a single taxpayer and $184,000 for a joint return for 2016). Annual contributions are not tax deductible but qualified withdrawals made after age 59½ are tax free. RMDs are not required from Roth IRAs.

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By funding both an employer-sponsored retirement plan and an IRA at the maximum levels allowed by law, and continuing this practice over a period of time, you could potentially make considerable progress in "catching up" for retirement. Since IRA rules are complex, you may want to consult your tax advisor or review *IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs).*

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