Catch-up Contributions — Making Up for Lost Time

Saving enough money for a comfortable retirement is probably one of your primary financial goals. But, with so many other demands on your money, it's easy to get off track. If you are age 50 or older and want to make up for lost time, the tax law allows you to catch up on your savings by contributing extra amounts to an employer-sponsored retirement savings plan and/or an individual retirement account (IRA).

Save Through Your Employer

401(k) plans and their cousins — 403(b) tax-sheltered annuities, salary reduction SEPs, 457 governmental plans, and SIMPLEs — allow participating employees to defer a portion of their pay to the plan on a pretax basis. You aren't taxed on your plan contributions — or on the earnings your contributions generate — until you receive distributions from the plan.

The tax law limits this benefit by capping the annual amount of salary that can be deferred. For 2014, the dollar limit is $17,500 ($12,000 for a SIMPLE). But, if your plan allows it, you can contribute even more once you reach age 50. The maximum catch-up contribution for 2014 is $5,500 ($2,500 for a SIMPLE).

Save on Your Own

A similar opportunity exists with IRAs. Eligible individuals who are at least age 50 can contribute up to $6,500 of compensation for 2014 — $1,000 more than the $5,500 contribution limit that generally applies. And there is no rule against contributing to an employer's plan and an IRA — you can do both. However, depending on your income, contributions to a traditional IRA may or may not be tax deductible when you or your spouse participate in an employer's plan.

The annual limits on contributions will increase in the future. Regardless of your age, maximizing your contributions to retirement savings plans and IRAs is a tax-smart way to prepare for the future.

Seeing the Benefits

	Save an additional $1,000/year	Save an additional $2,500/year	Save an additional $5,500/year
Save for 5 years	$5,966	$14,915	$32,813
Save for 7 years	$9,000	$22,499	$49,500

Each example assumes a 7% annual return, compounded monthly. This rate is used for illustrative purposes only; your returns may be different. The calculated balances only reflect the additional catch-up contributions and earnings for each participant.