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## U.S. News: IRS to Raise 401(k) Contribution Limit

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Ashlea Ebeling

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Millions of Americans can save more in retirement accounts next year, after inflation adjustments made Friday by the Internal Revenue Service.

The employee contribution limit for 401(k) and similar workplace plans will jump \$2,000 to \$22,500 for 2023, the largest increase ever in terms of dollars and percentage, says benefits provider Milliman.

The amount taxpayers can contribute to an individual retirement account will be \$6,500 for 2023, up from \$6,000. The limit hasn't changed since 2019.

The 401(k) catch-up contribution amount allowed if you are 50 or older will rise \$1,000 to \$7,500 for 2023. The catch-up contribution limit for individual retirement accounts, which isn't subject to inflation adjustments, remains at \$1,000.

For workers at companies that allow special after-tax contributions, and self-employed folks who have individual 401(k)s or SEP retirement plans, there is a total \$66,000 plan contribution limit for 2023, up \$5,000 from this year. That includes employee and employer contributions. With catch-up contributions on top, older savers can contribute up to \$73,500 in 2023 to these plans.

The retirement news follows Tuesday's announcement of adjustments to income-tax brackets and dozens of other adjustments including the estate and gift-tax exclusion, made annually under formulas set by Congress.

The higher limits offer a big savings opportunity.

"You may not feel the pinch now, and you'll reap the rewards later in retirement," says Maria Bruno, head of U.S. Wealth Planning Research at Vanguard, which administers retirement plans for nearly five million participants.

In Vanguard's retirement savings plans during 2021, 14% of participants saved the maximum amount of \$19,500 (\$26,000 for those age 50 or older). Six in 10 participants with income of more than \$150,000 made catch-up contributions.

Thirty-seven percent of households owning traditional IRAs or Roth IRAs in mid-2021 made contributions in tax year 2020, according to the Investment Company Institute. The median contribution amount was \$5,000.

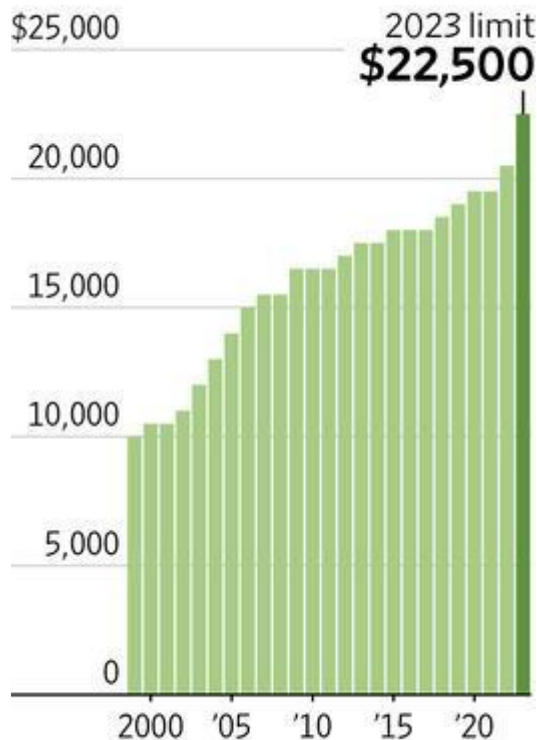
The inflation adjustments also apply to the income thresholds that determine whether taxpayers can deduct IRA contributions on their income tax returns, and whether taxpayers can contribute to a Roth IRA.

In 2023, the deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes between \$73,000 and \$83,000, up from between \$68,000 and \$78,000 this year. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the deduction is phased out for taxpayers with income between \$116,000 to \$136,000 for 2023, up from between \$109,000 to \$129,000 this year.

For a saver who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction for traditional IRA contributions is phased out if the couple's income is between \$218,000 and \$228,000 in 2023, up from between \$204,000 and \$214,000 this year.

For Roth IRAs, where the money you contribute is after tax, eligibility to contribute is based on your income.

### Annual 401(k) limits



Source: Internal Revenue Service

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