Retirement Contribution Limits for the New Year

By Louis E. Conrad II, CFA

- The contribution limits for retirement accounts set by the IRS are increasing for 2013.
- If your cash flow allows, be sure to increase your contribution amounts to reflect the new limits.

The forthcoming New Year will bring changes to the contribution limits of 401(k) and similar accounts, as well as IRAs. Here we review these changes.

Employer-Sponsored Accounts

The amount that you may contribute to an employer-sponsored retirement account has increased slightly for 2013. For 401(k), 403(b), and 457 plans, offered by corporate, non-profit, and government employers, respectively, the maximum you may contribute via payroll deduction to such plans has increased by $500 to $17,500 annually. The increase is due to the cost-of-living index, which met the statutory threshold that allows for an adjustment in the maximum contribution level.

If you will be 50 years of age or older by December 31, 2013, you may contribute an additional $5,500 in 2013 (also known as the "catch-up" provision), though this amount is unchanged from this year. Consequently, if you will be at least 50 years of age during 2013, you may contribute a total of $23,000 to an employer-sponsored retirement account. Contributions to your employer-sponsored retirement account, when made on a pre-tax basis, have the benefit of lowering your taxable income (and thus your taxes), as well as assisting in saving for your retirement.

For those with SIMPLE IRAs, the maximum annual contribution also has increased slightly for 2013 to $12,000 from $11,500. The "catch-up" provision of an additional $2,500 remains unchanged, however, for those individuals over 50.

IRA Accounts

Similar to the $500 contribution increase allowed for employer-sponsored accounts, the contribution limit has increased for Traditional and Roth IRAs in 2013. For such IRAs, you may contribute a total of $5,500 as your 2013 tax year contribution up until April 15, 2014. If you will be at least 50 years old at any time during 2013, you may contribute an additional $1,000, an amount which is unchanged from this year. To qualify to make an IRA contribution, your taxable compensation must be equal to or greater than the contribution you wish to make.

In addition, to contribute to a Roth IRA, you must be income eligible. To make the full contribution to which you are otherwise entitled, your modified adjusted gross income (MAGI) during 2013 must be $112,000 or less as a single filer and $178,000 or less as a married individual, filing jointly. If your MAGI is between $112,000 and $127,000 as a single filer, or between $178,000 and $188,000 as a married individual, filing jointly, you are entitled to make a prorata contribution to a Roth and a Traditional IRA as long as your total contribution does not exceed the applicable limit.

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	Retirement Account Contribution Limits	
	2012	**2013**
Under Age 50		
401(k), 403(b), and 457s	$17,000	$17,500
SIMPLE IRAs	$11,500	$12,000
Traditional or Roth IRAs	$5,000	$5,500
Age 50 or Older*		
401(k), 403(b), and 457s	$22,500	$23,000
SIMPLE IRAs	$14,000	$14,500
Traditional or Roth IRAs	$6,000	$6,500

* Includes "catch-up" provision

Source: www.irs.gov

Retirement Contribution Limits for the New Year, continued

If your MAGI exceeds the upper end of the applicable MAGI range, then you may contribute up to the allowed maximum to a Traditional IRA. You must be less than 70½ years old to contribute to a Traditional IRA.

Under current law, if you do not qualify to contribute directly to a Roth IRA because your MAGI exceeds the allowed limits, you may contribute to a Traditional IRA and then convert the contribution (and other retirement assets, if you desire) to a Roth IRA, subject to limitations and possible taxes, which are beyond the scope of this article.

One other difference between Roth and Traditional IRAs is worth noting. Contributions to a Roth IRA cannot be used as a deduction to reduce the income taxes you pay, while contributions to a Traditional IRA may or may not be used as a deduction. Whether or not a Traditional IRA contribution can be deducted is dependent on your income level and whether you or your spouse participates in an employer-sponsored retirement plan.

If you have not yet retired and have sufficient cash flow, consider increasing your retirement contributions in order to be better prepared financially for your retirement. You may also reduce the taxes you would otherwise pay.

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