Contribution Limits Will Increase for Tax Year 2022

As we approach the new year, it is a great time to re-evaluate your retirement savings goal of at least 15% of your household income, including employer contributions. Even gradually increasing your savings by 1% each year can have a profound effect on your retirement. For example, if you save an additional $100 per month over twenty years with a 7% average return, the increase in your retirement savings would be over $50,000. As a reminder, you can make 2021 contributions to your Traditional, SEP, and Roth IRA accounts prior to the tax filing deadline.

You can even increase your savings while in retirement. If you have part-time income, you can make Roth contributions up to the amount of earned income, not to exceed $7,000.

Below are the contribution limits for both 2021 and 2022:

Type of Retirement Plan	2021	2022
401(k), 457 and 403(b) Plans Deferral Limit	$19,500	$20,500
401(k), 457 and 403(b) Plans Catch-up Contribution Limit for individuals aged 50 or over	$6,500	$6,500
Roth or Traditional IRA Contribution Limits	$6,000	$6,000
Roth or Traditional IRA Catch up Contribution Limits for individuals aged 50 or over	$1,000	$1,000

If you are deferring into your employer's plan, you may consider changing your contributions from Pre-tax to Roth 401(k) or Roth 403(b). We are still in a low tax environment and Roth deferrals act as a hedge against higher taxes in the future. You pay today's tax rate on the deferral and the earnings will be tax-free to you if the account is held for at least five years and accessed after age 59 ½. The Roth portion of your retirement accounts will also be tax-free to your heirs if the account has been established for at least 5 years.

Please contact me with any questions.

Kind regards,

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