

Take Advantage of Retirement Plan Catch-Up Provisions

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Who says nothing good comes with age? If you turn 50 by the end of the calendar year (or are already 50+), you have an opportunity to make a significant difference in your retirement savings by taking advantage of the catch-up provisions the IRS has given you for your 50th birthday.

Catch Up with Age-50 Allowances

Taking advantage of the age-50 catch-up provisions can really add up over time. For example, if you contribute an additional \$5,000 to your retirement plan at the beginning of each year from ages 50 to 65 and you make a modest return of 5 percent, you'll have an additional \$113,287 in your retirement savings account at age 65. That's nothing to sneeze at.

Go beyond the annual limit

The catch-up provisions detailed in Table 60-1 effectively increases the maximum contribution to most retirement plans and IRAs for people 50 and older. You make the catch-up allowance in addition to the annual employee-plus-employer limit.

Table 60-1	Age 50 Catch-Up Allowances (2008)		
Retirement Plan	Employee Contribution Limits	Age-50 Catch-up	Total Maximum Employee Contributions
401(k)/Roth 401(k) 403(b)/Roth 403(b) 457(b), SAR-SEP	\$15,500	\$5,000	\$20,500
SIMPLE 401(k) and IRA	\$10,500	\$2,500	\$13,000
IRA (traditional and Roth)	\$5,000	\$1,000	\$6,000

In other words, if your employer contributes to your retirement plan through profit sharing, matching, or bonuses, the total contributions can reach the combined employee-plus-employer limit (\$46,000 for 2008). But if you're 50 and you use your age-50 catch-up allowance, you and your employer together can actually contribute a total of \$51,000 — or \$48,500 if your plan is a SIMPLE 401(k) — to your retirement plan. Wow!

Note: The age-50 catch-up is available for 457(b) plans only if they're governmental. If you work for a nongovernmental organization that offers a 457(b) plan, you can still take advantage of the special catch-up provision described later in the section titled "457(b): Last three years before retirement."

Deal with multiple retirement plans

If you participate in more than one retirement plan, either at the same or different employers, you can make only one age-50 catch-up contribution for all your plans combined (except for 457(b) plans). Here are a few examples:

- ✓ **Two 401(k)s:** You're 50 years old, have two part-time jobs, and participate in the 401(k) plans of two employers. You must apply the age-50 catch-up allowance to both plans together. That is, you can't contribute more than \$5,000 catch-up contributions in total between the two plans.
- ✓ **A 457(b) and plus a different plan:** Your employer offers a 401(k) and 457(b) plan. You participate in both plans. The catch-up limits are applied to these plans separately. In 2008, you can defer an additional \$5,000 catch-up to both your 401(k) and 457(b) plans for a total of \$10,000 extra retirement savings.
- ✓ **Two 457(b)s:** You're 50 years old, work for two separate employers, and participate in the 457(b) plan of each employer. You apply the age-50 catch-up allowance to both plans together. This means that in 2008, you can't contribute more than \$5,000 in total catch-up contributions between the two 457(b) plans.

Play Catch-Up with Special Provisions for 457(b) and 403(b) Plans

If you participate in either a 457(b) or a 403(b) retirement plan through your employer, you should be familiar with a couple of special catch-up provisions that aren't related to turning age 50. Taking advantage of these 457(b) and 403(b) catch-up provisions can play an important part in securing your retirement savings against the inevitable uncertainties of these (and most other) economic times.

457(b): Last three years before retirement

The 457(b) has a special rule saying that for the three years prior to normal retirement age (as defined by your employer), you can increase your salary deferrals by up to twice the regular limit — up to \$31,000 in 2008 — to make up for previous years in which you didn't contribute the full deferral.

If you're also eligible for the age-50 catch-up, you can choose either the special rule or the age-50, whichever gives you the higher catch-up in any year. Compare these examples:

- ✓ **High “unused contributions”:** You're 62 and you intend to retire at 65, the normal retirement age at your company. Throughout the years, you haven't maximized your 457(b) retirement plan contributions, so you have \$75,000 of “unused contributions” available for this calculation. In 2008, you can contribute \$31,000 to your 457(b) retirement plan.
- ✓ **Low “unused contributions”:** You're 66 and you plan to retire next year at 67. For the last two years, you've taken advantage of the special 457(b) catch-up allowance, so you have only \$4,000 of “unused contributions” remaining for the calculation. In this case, you'd choose the age-50 catch-up allowance because it's greater than the special catch-up provision.

403(b): Fifteen years of service

You're eligible for a special \$3,000 annual catch-up in your 403(b) (with a lifetime max per employer of \$15,000) if you meet both of the following conditions:

- ✓ You have 15 years of service (not necessarily consecutive years) for the same hospital, health agency, public school system, or church.
- ✓ Your average annual contributions to all the retirement plans offered by this employer are less than \$5,000 annually.

You can be eligible for both the 15-years-of-service and the age-50 catch-ups for a total allowable catch-up in 2008 of \$8,000. The 15-years-of-service special catch-up is included in the calculation of the employee-plus-employer limit (\$46,000 in 2008). Compare these scenarios:

- ✓ **Employee contributions only:** You're 64 and have worked in the church office of your parish on and off over the past 25 years, for a total of 15 years of service. During this time, you've never contributed more than \$5,000 to the church 403(b) retirement plan in any one year. The church doesn't contribute to your 403(b) plan. In 2008, you're eligible to contribute \$8,000 in catch-up contributions — \$3,000 special catch-up and \$5,000 age-50 catch-up — in addition to a regular contribution of \$15,500.
- ✓ **Employee-plus-employer contributions:** Same facts as in the first example, except the church has contributed \$28,500 to your plan. Your special catch-up contribution is limited to \$2,000 because it's included in the calculation of the employee-plus-employer maximum addition limit (\$46,000 for 2008). You can still contribute your age-50 catch-up for a combined addition of \$51,000.

