How Much Can You Save for Retirement in 2020?

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Recently the Treasury Department announced figures for retirement account savings for 2020; 401(k) contribution limits are up, along with most other retirement savings vehicles, yet traditional IRA contribution limits stay the same.

Here is a breakdown of each plan's new contribution limits:

401(k)s:

The annual contribution limit for employees who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan is $19,500 for 2020—a $500 boost over 2019. Furthermore, you can make changes to your 401(k) election at any time during the year, not just during open enrollment season when most employers send you a reminder to update your elections for the next plan year.

The 401(k) Catch-Up:

The catch-up contribution limit for employees age 50 or older in these plans is $6,500 for 2020. That's the first increase since 2015 when the limit rose to $6,000. Even if you don't turn 50 until December 31, 2020, you can make the additional $6,500 catch-up contribution for the year.

After-tax 401(k) contributions:

If your employer allows after-tax contributions to your 401(k), you also get the advantage of the $57,000 limit for 2020. It's an overall cap, including your $19,500 (pretax or Roth in any combination) salary deferrals plus any employer contributions (but not catch-up contributions).

Individual Retirement Accounts:

The limit on annual contributions to an Individual Retirement Account (pretax or Roth or a combination) remains at $6,000 for 2020, the same as in 2019. The catch-up contribution limit, which is not subject to inflation adjustments, remains at $1,000. (Remember that 2020 IRA contributions can be made until April 15, 2021.)

So, theoretically, the 50 or older super saver can save $33,000 by combining contributions to both a 401(k) and an IRA. Additionally, if the employer allows after-tax contributions or they're self-employed, you can save even more. The overall defined contribution plan limit moves up to $57,000, from $56,000. Of course, you should always consult a tax professional regarding the deductibility of contributions.

This seems like a pretty tall task, however, during 2018, 13% of employees with retirement plans at work saved the then maximum of $18,500 / $24,500, according to Vanguard's "How America Saves." In plans offering catch-up contributions, 15% of those age 50 or older took advantage of the extra savings opportunity. High earners are really saving, 6 out of 10 people earning $150,000+ contributed the maximum allowed, including catch-ups.

In 2020, there will be more room to save now with these increased contribution limits, and it should be taken advantage of for optimal investing. With the new contribution limits, there should be even more enthusiasm to sock away as much as you can to achieve your investment goals.

For more information, please contact:

Ryan C. Smith
Investment Advisor
rsmith@dopkins.com ▪ 716.634.8800

Ryan provides financial solutions to individuals, trusts and businesses. His services include guidance to clients regarding financial planning, investments and portfolio analysis.

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