

Financially Speaking

New Year Brings Increased Contribution Limits

Many of us see the turning of the calendar to a new year as an opportunity for a reset or fresh start for some aspect of our lives. It is inevitable that more gym memberships will be started, more self-help books sold and more credit cards will be locked away as people try focus on making better choices in the coming year.

It is not surprising then that January tends to be a very busy time in my office as people look to either start or shore up their financial plans. If you include yourself in the category of people that want to focus more on your finances in the coming year then there are some updated numbers that you should be aware of.

Periodically the Internal Revenue Service (IRS) will update the dollar amounts that pertain to retirement accounts to reflect the increased cost of living over time. 2024 is a year when a number of dollar amounts were boosted, increasing the income limits for who can contribute and also the amounts that can be contributed.

While there are a lot of updated dollar amounts, the ones that are most broadly applicable to individuals include increases to maximum contribution amounts for 401k (and similar plans, such as 403b's), IRA and Roth IRAs.

For 2024 the maximum regular contribution limit for employee elective deferrals to 401k (and similar) plans has increased from \$22,500 to \$23,000. This applies to the amount of money that employees can choose to contribute to their employer retirement plan for themselves. In addition, for employees that are age 50 or over, there is a catch up provision that allows another \$7500 in contributions for the year, which is unchanged from 2023.

Another common employer retirement plan that is used by many small businesses is a Simple IRA. Similar to 401k plans the employee deferral limit for 2024 increased by \$500, from \$15,500 to \$16,000. There is also a catch up provision for Simple IRAs, allowing those age 50 or older to contribute an additional \$3500 for the year, for a total of \$19,500 in 2024.

If you are unsure of what type of retirement plan your employer offers and whether these updates would apply to you, now would be a good time to reach out to your human resources department to find out.

Similar to employer retirement plans, the IRS also increased the amounts that can be contributed to individual retirement accounts (IRA). The increases apply to both traditional IRAs and Roth IRAs. Those limits also increased by \$500, from \$6500 to \$7000 for the year. Like employer plans, there is also a catch up provision for those age 50 or older, allowing an additional \$1000 of contributions for a total of \$8000 in 2024.

The ability to contribute on a tax deductible basis to a traditional IRA and/or to a Roth IRA is subject to income limits. Those rules are too involved to summarize in this article but in general those income levels also increased so if you have not been eligible in the past you should check again to see if you might be now.

We always recommend checking with your tax advisor to determine how tax rules apply to you and what you are eligible to contribute to.

If you live in Wisconsin and contribute to one of the Wisconsin 529 plans, then the amount of contributions that are eligible for a state income tax deduction also increased for 2024. The amount for this year is \$4000 per beneficiary.

It is important to be proactive about contribution limit increases if you want to maximize what you put in for the year. Don't assume that because you put the maximum into your 401k in 2023 that your contributions will automatically increase to the higher maximum for 2024. In fact, most retirement plans will not do that without your explicit instructions. Similarly, if you are adding monthly to an IRA or 529 plan you will need to initiate the change if you want to increase what you are putting in this year.

Saving for your future goals is one of the most important steps that you can take towards achieving them. Utilizing options that give you tax benefits for doing so can make a lot of sense and, if you are in the position of being able to maximize those contributions, take advantage of the increased limits now available.

Trisha Arndt, CFP®, is President of Wealth Strategies of Wisconsin Ltd, 951 Kimball Lane, Suite 110, Verona, WI 53593, 608-848-2400. Securities and Advisory Services offered through Commonwealth Financial Network®, member FINRA/SIPC, a Registered Investment Advisor.