Retirement Plan Contributions

Individuals may want to maximize their annual contributions to qualified retirement plans and Individual Retirement Accounts (IRAs).

- The maximum amount of elective contributions that an employee can make in 2022 to a 401(k) or 403(b) plan is $20,500 ($27,000 if age 50 or over and the plan allows "catch up" contributions). For 2023, these limits are $22,500 and $30,000, respectively.
- The SECURE Act permits a penalty-free withdrawal of up to $5,000 from traditional IRAs and qualified retirement plans for qualifying expenses related to the birth or adoption of a child after December 31, 2019. The $5,000 distribution limit is per individual, so a married couple could each receive $5,000.
- Under the SECURE Act, individuals are now able to contribute to their traditional IRAs in or after the year in which they turn 70½.
- The SECURE Act changes the age for required minimum distributions (RMDs) from tax-qualified retirement plans and IRAs from age 70½ to age 72 for individuals born on or after July 1, 1949. Generally, the first RMD for such individuals is due by April 1 of the year after the year in which they turn 72.
- Individuals age 70½ or older can donate up to $100,000 to a qualified charity directly from a taxable IRA.
- The SECURE Act generally requires that designated beneficiaries of persons who died after December 31, 2019, take inherited plan benefits over a 10-year period. Eligible designated beneficiaries (i.e., surviving spouses, minor children of the plan participant, disabled and chronically ill beneficiaries and beneficiaries who are less than 10 years younger than the plan participant) are not limited to the 10-year payout rule. Special rules apply to certain trusts.
- Under proposed Treasury Regulations (issued February 2022) that address required minimum distributions from inherited retirement plans of persons who died after December 31, 2019 and **after** their required beginning date, designated and non-designated beneficiaries will be required to take **annual** distributions, whether subject to a ten-year period or otherwise. This interpretation is at odds with the interpretation under the SECURE Act, in which annual distributions were not required when subject to full payout under the ten-year rule. If the proposed regulations are final before the end of 2022, there is some concern that annual distributions would be required for 2022 if the ten-year rule applies. Beneficiaries can take a wait and see approach by calculating what those 2022 distributions would be, then wait to see if final Treasury Regulations are issued, before the end of 2022, that clarify the distribution requirement under the ten-year rule.
- Small businesses can contribute the lesser of (i) 25% of employees' salaries or (ii) an annual maximum set by the IRS each year to a Simplified Employee Pension (SEP) plan by the extended due date of the employer's federal income tax return for the year that the contribution is made. The maximum SEP contribution for 2022 is $61,000. The maximum SEP contribution for 2023 is $66,000. The calculation of the 25% limit for self-employed individuals is based on net self-employment income, which is calculated after the reduction in income from the SEP contribution (as well as for other things, such as self-employment taxes).