Abstract: Those age 50 or older on December 31 of any given year can start making "catch-up" contributions to their employer-sponsored retirement plans by that date. This article helps readers catch up on catch-up contribution amounts for 401(k) plans.

Catching up on catch-up contributions

When it comes to retirement planning, many people tend to focus on two things: opening a retirement savings account and then eventually drawing funds from it. However, there are other important aspects to truly doing everything you can to grow your nest egg.

One of them is celebrating your 50th birthday. This is because those age 50 or older on December 31 of any given year can start making "catch-up" contributions to their employer-sponsored retirement plans by that date (assuming the plan allows them). These are additional contributions to certain accounts beyond the regular annual limits.

Maybe you haven't yet saved as much for retirement as you'd like to. Or perhaps you'd just like to make the most of tax-advantaged savings opportunities. Whatever the case may be, now is a good time to get caught up on the latest catch-up contribution amounts.

401(k)s and SIMPLEs

Under 401(k) limits for 2020, if you're age 50 or older, you can contribute an extra $6,500 after you've reached the $19,500 maximum limit for all employees. That's a total of $26,000. If your employer offers a Savings Incentive Match Plan for Employees (SIMPLE) instead, your regular contribution maxes out at $13,500 in 2020. If you're 50 or older, you're allowed to contribute an additional $3,000 — or $16,500 in total for the year. (Be sure to check with your employer because, while most 401(k) plans and SIMPLEs offer catch-up contributions, not all do.)

Self-employed plans

If you're self-employed, retirement plans such as an individual 401(k) — or solo 401(k) — also allow catch-up contributions. A solo 401(k) is a plan for those with no other employees. You can defer 100% of your self-employment income or compensation, up to the regular yearly aggregate deferral limit of $19,500, plus a $6,500 catch-up contribution in 2020. But that's just the employee salary deferral portion of the contribution.

You can also make an "employer" contribution of up to 20% of self-employment income or 25% of compensation. The total combined employee-employer contribution is limited to $57,000, plus the $6,500 catch-up contribution.

IRAs, too

Catch-up contributions to non-Roth accounts can not only enlarge your retirement nest egg, but also reduce your 2020 tax liability. And keep in mind that catch-up contributions are available for IRAs, too.

However, the deadline for 2020 contributions is April 15, 2021, and deductible contributions may be limited or unavailable based on your income and whether you're covered by a retirement plan at work. Please contact us for more information.