

The 2020 Contribution Limits Are Here

2020 Contribution Limit Changes & the Secure Act

Understanding the changes for 2020 so you can maximize your retirement

There are some significant changes to your retirement plans starting January 1, 2020. Between the Internal Revenue Service announcing cost-of-living adjustments for tax year 2020 and the new Secure Act, there is a lot to digest.

Here are the highlights:

IRS Cost-of-Living Adjustments

Detailed in Notice 2019-59 and posted on IRS.gov, the IRS is increasing the contribution limits to your 401(k) and other retirement plans starting January 1, 2020, including:

- Maximum employee contribution rises to \$19,500
- Combined employer and employee contribution rises \$57,000
- Employee catch-up contribution for participants ages 50+ rises to \$6,500
- Combined employer and employee contribution for ages 50+ rises to \$63,500
- Annual compensation limit for calculating contributions increases to \$285,000
- Highly Compensated Employee limit increases to \$130,000

- The compensation amount regarding simplified employee pensions remains unchanged
- The limitation regarding SIMPLE retirement accounts rises to \$13,500

The Secure Act

The Setting Every Community Up for Retirement Enhancement Act of 2019 – the SECURE Act – passed through the House of Representatives and the Senate and was signed by President Trump shortly before Christmas.

Incorporated into a broader 2020 fiscal year appropriations bill, the SECURE Act is aimed at helping Americans more easily participate in tax-advantaged retirement accounts as well as helping ensure that older retirees do not outlive their assets.

While the SECURE Act contains 29 provisions aimed at helping Americans better save for retirement, here are a few highlights:

- It offers tax incentives to small businesses to set up automatic enrollment in retirement plans
- It allows employers to join with other companies and offer joint-retirement plans, which should help keep costs down

- It allows many part-time workers to participate in employer-sponsored retirement plans
- It creates a new early withdrawal penalty tax exemption of up to \$5,000 from an IRA to use for childcare costs
- It pushes back the Required Minimum Distribution Age from 70 ½ to 72
- It allows for the inclusion of more lifetime-income options, including annuities

Start Planning Your 2020 Changes Now

The changes from the IRS and the new SECURE Act both alter the rules surrounding retirement plans. And while many of them are simple, others are very complex. As such, investors should study the details and potential implications before blindly adopting.

Talk to your financial advisor to make sure you understand the new rules and potential implications.