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In 2020 You Can Contribute More to Your 401(k) Plan

401(k) Limits Increased for 2020

On November 6, 2019, the Internal Revenue Service issued the cost of living adjustments for contributions to 401(k) plans and other retirement plans. The increases enable participants in these plans to contribute more toward saving for retirement. Effective January 1, 2020, the limits are as follows:

- The employee annual deferral limit increased from $19,000 to $19,500.
- The limit for additional employee deferrals for participants age 50 or older ("catch-up contributions") increased from $6,000 to $6,500.
- As a result of the increases, participants who are age 50 or older for a plan year may annually contribute up to $26,000 on a pre-tax or after-tax basis.
- The annual maximum compensation that may be used for purposes of calculating retirement plan contributions increased from $280,000 to $285,000.
- The maximum annual contributions to a defined contribution retirement plan (like a 401(k) plan) for employee and employer contributions increased from $56,000 to $57,000.
- The annual limit for contributions to a simple IRA increased from $13,000 to $13,500.

Actions to Consider:

- Participants in 401(k) plans may want to review their current salary deferral elections to consider taking advantage of the higher limits for 2020.
- Participants who turn age 50 in 2019 may want to consider a catch-up contribution for 2019 and those who will turn age 50 in 2020 may want to consider taking advantage of catch-up contributions beginning in 2020.

Safe-Harbor Notices

Now that the new limitations have been issued, employers can update and send participants the annual Safe-Harbor Notice ("Notice"). The Notice must be given to participants in 401(k) plans that take advantage of rules that avoid some of the complicated testing and limitations that otherwise apply to 401(k) plans. The Notice must be given to participants at least 30 days before the end of the plan year but no earlier than 90 days before the plan year ends. Thus, the deadline for giving the 2020 Notice for calendar year plans is December 1, 2019. Since December 1 falls on the Sunday after the Thanksgiving holiday, employers should consider issuing the Notice early, perhaps no later than November 22, 2019.

This would also apply to the QDIA Notice and the Fee Disclosure Notice that employers have elected to distribute to participants by December 1st each year.