

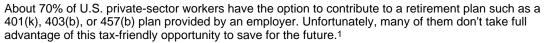


Accredited Wealth Management Steve Giacobbe, CFA, CFP® 4938 Brownsboro Road, Ste. 201 Louisville, KY 40222

502-290-1905 sgiacobbe@accreditedwm.com www.accreditedwm.com



Dreaming of Retirement? Consider Maxing Out Your 401(k) in 2025



The SECURE Act and SECURE 2.0 Act (federal legislation passed in 2019 and 2022, respectively) sought to improve Americans' retirement security by expanding access to workplace retirement accounts and encouraging workers to save more. As a result, some older workers will be allowed to make bigger contributions to their retirement accounts in 2025.

That's good news if you are one of the many Americans who have experienced bouts of unemployment, took time out of the workforce for caregiving, helped pay for pricey college educations for your children (or yourself), or faced other financial challenges that prevented you from saving consistently. You may have some catching up to do. And regardless of your age, the responsibility for saving enough and investing wisely for retirement is largely in your hands.



The funds invested in tax-deferred retirement accounts accumulate on a tax-deferred basis, which means you don't have to pay any required taxes until you withdraw the money. Instead, all returns are reinvested so they can continue compounding through the years. This is the main reason why young workers can really benefit from saving as much as they can, as soon as they can.

Many companies will match part of employee 401(k) contributions, so it's a good idea to save at least enough to receive full company matches and any available profit sharing (e.g. 5% to 6% of salary). But to set yourself up for a comfortable retirement, you might elect to automatically increase your contribution rate by 1% each year (if that option is available) until you reach your desired rate, such as 10% to 15%.



If you have extra income that you would like to save, keep in mind that the employee contribution limit for 401(k), 403(b), and government 457(b) plans is \$23,500 in 2025, with an additional \$7,500 catch-up contribution for those age 50 and older, for a total of \$31,000.

New for 2025, workers age 60 to 63 can make a larger "super catch-up" contribution of \$11,250 for a total of \$34,750. Like all catch-up contributions, the age limit is based on age at the end of the year, so you are eligible to make the full \$11,250 contribution if you will turn 60 to 63 any time during 2025 (but not if you will turn 64).

You might also want to find out if your employer's plan allows special after-tax contributions. If so, consider yourself lucky, because this feature is not very common, especially at smaller companies.

In 2025, the combined total for salary deferrals (not including catch-up contributions), employer contributions, and employee after-tax contributions is \$70,000 or 100% of compensation, whichever is less.

You generally must max out salary deferrals before you can make additional after-tax contributions. For example, if you are age 60, and you contribute the maximum \$34,750 to your 401(k), and your employer contributes \$15,000, you may be able to make a sizable after-tax contribution of \$31,500 for a grand total of \$81,250.



New for 2025, workers age 60 to 63 can make a larger "super catch-up" contribution of \$11,250.



All of these contribution and catch-up limits are indexed annually to inflation.

Choosing between traditional or Roth

Traditional (or pre-tax) contributions are deducted from your paycheck before taxes, resulting in a lower current tax bill, and withdrawals are taxed as ordinary income. Roth contributions are considered "after-tax," so they won't reduce the amount of current income subject to taxes, but qualified distributions down the road will be tax-free (under current law).

A Roth distribution is considered qualified if the account is held for five years and the account owner reaches age 59½, dies, or becomes disabled. (Other exceptions may apply.)

Withdrawals from pre-tax retirement accounts prior to age 59½ and nonqualified withdrawals from Roth accounts are subject to a 10% penalty on top of ordinary income taxes. However, because Roth contributions are made with after-tax dollars, they can be withdrawn at any time without tax consequences.

When deciding between traditional and Roth contributions, think about whether you are likely to benefit more from a tax break today than you would from a tax break in retirement. Specifically, if you expect to be in a higher tax bracket in retirement, Roth contributions may be more beneficial in the long run.

But you should also consider that generally you will have to take taxable required minimum distributions (RMDs) from traditional accounts once you reach age 73 (or 75, depending on year of birth), whether you need the money or not. Roth accounts are not subject to RMDs during your lifetime, which can make them useful for estate planning purposes. This also provides flexibility to make withdrawals only when necessary and could help you avoid unwanted taxes or Medicare surcharges.

Splitting your contributions between traditional and Roth accounts could help create a wider range of future options.

Lastly, there's another new rule that could impact your contribution decisions over the coming years. Starting in 2026, all of your catch-up contributions will have to be Roth contributions if you earned more than \$145,000 during the previous year.

1) U.S. Bureau of Labor Statistics, 2024

IMPORTANT DISCLOSURES

Accredited Wealth Management provides this information for educational purposes only; it is not intended to be specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. To the extent that this material concerns legal matters, individuals should consult the appropriate legal counsel given their particular situation.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

