Catch-up contributions

If you are over age 50 or getting close to normal retirement age, you might feel a little behind on your retirement savings. Fortunately, the federal government makes it easier to catch up on your savings at a faster rate by providing two catch-up provisions: the age 50+ and three-year catch-up provisions. Taking advantage of a catch-up option not only allows you to save at an accelerated rate, it also could lower your taxable income — and that means more money that could work for you.

Age 50+ catch-up

In 2023, retirement plan participants can contribute a maximum of 100% of includible compensation to their plan, not to exceed the IRS limit of $22,500. However, if you are age 50 or older during the 2023 calendar year, you can take advantage of the age 50+ catch-up provision and contribute an additional $7,500. Your date of birth will determine whether you qualify to use this option.

Three-year catch-up

If you are in the three years prior to the year in which you reach your normal retirement age and have undercontributed in prior years, you may use the three-year catch-up provision. This allows you to contribute up to an additional $22,500 in 2023, amounting to a total possible maximum contribution of $45,000. In order to qualify for the three-year catch-up provision, you must have underutilized contributions with the same employer from previous years.

2023 catch-up options

Age 50+ catch-up	Three-year catch-up
For participants age 50 and older during the 2023 calendar year	For participants within three years prior to normal retirement age
Allows you to contribute an additional $7,500	Allows you to contribute up to an additional $22,500
No application required	Complete a 457(b) application for catch-up form
Maximum total: $30,000	**Maximum total: $45,000**

Note: You cannot use both options in the same year.

Three-year catch-up contributions

To take advantage of the three-year catch-up in any calendar year, remember these important considerations:

Irrevocable election — The three-year catch-up is a once-in-a-lifetime opportunity and can be used up to a maximum of three consecutive years before the year in which you reach your normal retirement age. You are not required to contribute the maximum amount each year and you are not required to use it for all three years, but once you begin, you have three consecutive years to complete your catch-up contributions.
Example: You make your first catch-up contributions in year one. You decide to skip year two. You can resume in year three. Once the three-year period ends, you lose the ability to make three-year catch-up contributions for any remaining underutilized contributions.

Underutilized amounts — In order to qualify for the three-year catch-up provision, you must have underutilized contributions with the same employer from previous years. Underutilized contributions occur when you defer less than the maximum allowable limit in a given tax year.
Example: If you were eligible to contribute $19,500 in 2021 and $20,500 in 2022 but only contributed $10,000 each year, you would be eligible to catch up on $20,000 in underutilized contributions.

Normal retirement age (NRA) — For purposes of the three-year catch-up limitation, the NRA shall be age 70½ or such earlier age as selected by the participant. In selecting an alternate NRA, you may choose any age that is: (1) not earlier than the earliest age at which you have the right to retire and receive unreduced retirement benefits from your employer's basic pension plan and (2) not later than the date that you reach age 70½.
Participants are not required to retire on their NRA date.

Catch-up contributions — You are allowed to make catch-up contributions in the three calendar years prior to your NRA.
Example: If your NRA is 62, then you may make catch-up contributions in the years when you are age 59, 60, and 61. You cannot make catch-up contributions in the calendar year in which you reach your NRA.

Accrued sick and vacation pay — If you have underutilized contributions, you may be able to contribute all or a portion of your accrued sick and vacation pay into your retirement plan when you sever employment. Your NRA must be at least one year later than the year in which the accrued sick and vacation pay will be contributed to your account.
Example: If you plan to sever employment at age 66 and your accrued sick and vacation pay will be paid in January when you are 67, then your NRA year must be the year you turn 68 or older but no later than the year you turn 70½.

Are you eligible for the three-year catch-up?

Is this the first time using the three-year catch-up?
If you have used this provision in the past with any employer, you are ineligible to use it again.

Do you have underutilized contributions within your deferral history?
You need underutilized contributions from previous years to make additional contributions in the three years prior to your NRA. In order to contribute the maximum contribution of $45,000 each of the three years prior to your NRA (assuming the contribution limit remains at $22,500 for each year), you would need $67,500 of underutilized contributions with the same employer from previous years.

May I use both catch-up options at the same time?

No. The age 50+ catch-up provision and the three-year catch-up provision cannot be used in the same calendar year. If you are eligible for both catch-up options, you may use the one offering the higher benefit. In addition, you may not use the three-year catch-up option in the year in which you reach your NRA.

Reminder:

Your contribution limit will not automatically increase if the maximum allowable amount is increased. You must elect to increase your contribution into your retirement plan.

› Questions? Contact us at **retire@iisfinancial.com** or call **207-761-4733**.