New Retirement Plan Contribution Limits for 2019

Does it seem like forever since the Treasury Department increased the amount you can contribute to an IRA? It turns out that the limit has been stuck at $5,500 (if you are under 50) and $6,500 if you are 50 or over, for six years. Those limits are being increased to $6,000 and $7,000 respectively, next year (2019). Many other retirement plan contribution limits are being increased in 2019 as well.

Let's have a quick review of the different retirement savings plans, and provide insights on some of the frequently asked questions about these plans.

401k(s) – The most popular retirement savings plan for employees

The annual contribution limit for participants in 401(k), 403(b), and 457 plans has increased from $18,500 to $19,000 for 2019. Participants age 50 or over can contribute an additional $6,000, bringing the total to $24,500 for 2018 and $25,000 for 2019. Keep in mind that these figures are only the employee's contribution. The total amount contributed can reach $56,000, once you add in a company match and/or profit-sharing contributions from your employer.

Retirement Plans for the Self-Employed:

Solo 401(K)

The Solo 401(k) is a great plan for self-employed individuals who do not have employees. You can contribute 100% of your wages up to $55,000 in 2018, or $56,000 in 2019. You can also contribute for a spouse, provided you pay them wages from the business. You could put your spouse on payroll and then defer 100% of those wages into the solo 401k plan. Naturally, you would not pay any income tax on wages contributed to the Solo 401k, but the employee would still have to pay payroll taxes (Social Security and Medicare withholding) on the wages.

SEP IRA

The other very popular plan for small business owners with zero to a handful of employees is the SEP IRA. The contribution limit is $56,000 for the SEP IRA, not the $6,000-$7,000 limit you find with a Traditional or ROTH IRA. You must include all employees who are over age 21, have worked for your business in 3 of the past 5 years, and have received at least $600 in compensation. The employer can contribute up to 25% of wages to a SEP IRA. However, they have to contribute the same percentage for each eligible employee. So, if you contribute 15% for yourself, you have to contribute 15% of each eligible employee's wages.

A couple other idiosyncrasies of the SEP IRA are:

1) Employees are not allowed to contribute, only the employer.
2) All contributions are immediately vested.
3) It is the only retirement plan you can set up after the end of the calendar year. The SEP can be instituted up to your tax filing deadline, including extensions, for the previous year.

The nice thing about the solo 401k and SEP IRA is the administration is extremely simple and does not require a Third Party Administrator (TPA) like a typical company retirement plan. These plans can be opened at just about any brokerage firm (TD Ameritrade, Fidelity, Schwab, or Vanguard).

Frequently Asked Questions

You probably have a few questions, such as:

- Can I contribute to an IRA if I also contribute to a 401k or other company-sponsored retirement plan?
- Can I contribute to an IRA if I am over 70 ½?
- When is the IRA contribution deadline?
- In what situations are IRA contributions non-deductible?
- Can I contribute to an IRA if I do not have any income?
- Can I contribute to a traditional IRA *and* a ROTH?

THOUGHT THIS WAS FUNNY

Need your opinion on this debate with my wife

This past weekend, my wife and I were reviewing our household budget and categorizing our expenses. My wife went to see a psychic the previous week, so naturally, the charge showed up when we downloaded the transactions from our bank. We could not agree on where to categorize the expense. My wife thought it should go under “medical.” I suggested “entertainment” was the appropriate expense category.

We compromised and put it in our miscellaneous category, which is appropriately named “Stuff we forgot to budget for.” Let’s just hope this will not be a recurring expense!

What do you think: Medical? Entertainment? Or Other?