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Can I Catch Up on my 401(k) Savings?

Q. I lost my full-time job so I waitressed for a while until I found another job in my field. I didn't make any retirement contributions at the first job or while I waitressed, but I'd like to now. How can I figure out how much I can save because there are only a few months left in the year?

A. Glad to hear you're back at work in your field, and we love that you want to boost your retirement savings. While there are dollar limits on how much you can contribute to a retirement plan are annual, so until the calendar changes from 2015 to 2016, you can always catch up, said Howard Hook, a certified financial planner and certified public accountant with EKS Associates in Princeton. Further, there was a time when contributions to 401(k) plans were done only as a percentage of salary, but now the law was changed to allow dollar-for-dollar elections, Hook said. That will make the math easier for you.

To figure out how much you can save before the end of the year, multiply the remaining number of paychecks you expect to receive by the amount you think you can save from each paycheck, Hook said. For example, if you are paid twice a month and can save $100 each paycheck, then for the rest of the year you will be able to save $800 (8 pay periods X $100). And you may be able to afford to save more than you think because your contributions are made on a pre-tax basis, Hook said. If you think you can save $100 per paycheck, your net paycheck will decline less than $100 — maybe only $70 — because of the tax savings. "Thinking of it this way may lead you to conclude you can save more than $100," Hook said. "Following through on the example, saving $120 into the 401(k) may only reduce your net pay by $100, which is the savings goal you originally had. The great news is that you saved $120 — 20 percent more — but it only felt like $100."

There are a few things to consider if you can afford to save more.

You could contribute up to $18,000 this year with an additional $6,000 for those over age 50, said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge**. "Trying to reach this limit by year end would mean setting aside about $4,500 per month for the next four months if you are under 50," she said. While trying to make a full-year contribution in just a few months may be out of the question, deferring enough to receive any match your employer might be providing is important to consider, Mott said. "An employer match is 'free money' that you shouldn't pass up if at all possible," she said, suggesting you check with your benefits department to understand how your company's employer match works. Then when the new year begins, you should adjust the amount you withhold each pay period so that the contribution is more evenly distributed across your paychecks, she said.

Traditional and Roth IRAs are also tax-deferred retirement savings options that may be available if your employer doesn't provide one or if you find you have extra savings that you'd like to set aside, Mott said. The maximum IRA contribution than can be made in 2015 is $5,500 with an additional $1,000 catch-up for individuals over age 50. Your modified adjusted gross income must exceed the contribution limit and all contributions must be made by the tax filing deadline which is usually April 15 of the following year, she said. "For the traditional IRA, you may be able to fully deduct the contribution on your income tax return, if you don't have an employer plan and you are single," she said. "However, the deductibility rules would change if you are married and your spouse has a retirement plan." The tax deduction rules will also change if your employer offers a plan.

"The deduction issue is important because it will determine if your withdrawals will be taxed when you begin taking required minimum distributions at age 70 ½," Mott said. "You may want to talk to a tax professional to find out whether you would qualify for the deduction." A Roth IRA may be a better option if your contribution to a traditional IRA is not going to provide you a tax deduction, Mott said. "Roth contributions are made with after-tax dollars and are not deductible on your tax return," she said. "However, unlike traditional IRAs, when you start withdrawals, these dollars will not be taxed as income." Roths offer the same tax-deferred savings advantage as other retirement accounts by allowing dividends, income and capital gains to reinvest without being taxed as they occur, she said.

"Another benefit of a Roth IRA is the lack of a required minimum distribution which can enable the account to continue to grow if you don't need to use the money," Mott said. "Roth IRAs do have income limits that could prevent you from making a full contribution depending on your modified adjusted gross income and tax filing status." If you do increase your savings, Mott said, know that you can't save more than you earn in a year. And before you decide how much to save, please be sure you understand your monthly living expense needs so that you don't leave yourself short each pay period or use savings that might be needed for an emergency, Mott said.

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