

5 THINGS YOU NEED TO KNOW ABOUT RETIREMENT ACCOUNTS THIS YEAR

Changes affect both workers and retirees



BY PENELOPE WANG

The fundamentals of saving for retirement may remain constant—invest for the long run, don't take unnecessary risks—but the laws and regulations affecting retirement in the U.S. are constantly changing. This year is no exception.

Whether you are retired or still in the workforce, here are five things that may help you minimize taxes and build more savings.

BIG SAVERS CAN SAVE MORE

For people 50 or older who are saving in an employer 401(k) or 403(b), the maximum annual contribution has increased to \$30,500 in 2024, up \$500 from last year. The 2024 amount

comprises the \$23,000 contribution limit for younger workers plus a \$7,500 catch-up contribution allowed for individuals 50-plus. The maximum is the same for other workplace retirement plans, such as most 457s.

“The ability to make catch-up contributions, when you may be in your peak earning years, is a golden opportunity to add substantially to your savings,” says Tom Fredrickson, a financial planner in Brooklyn, New York.

If you're saving outside an employer plan, the standard IRA contribution limit rose \$500, to \$7,000. The catch-up contribution for ages 50 and older remains an additional \$1,000.

Plan ahead: Starting in January 2025, if you're age 60 to 63, you may be able to save even more in your employer-sponsored retirement plan. The Secure 2.0 Act will allow this age group to make catch-up contributions of

\$10,000, or 50 percent more than the regular catch-up amount, whichever is greater.

SAVER'S CREDIT CAN BOOST CONTRIBUTIONS

Low- and moderate-income workers can get their federal tax bill cut by up to \$1,000 (or \$2,000, if married and filing jointly) via the federal saver's credit. You can get it by contributing to a qualified employer retirement plan, such as a 401(k), a traditional or Roth IRA, or an ABLÉ (Achieving a Better Life Experience) account. This year, the credit is limited to solo filers with an adjusted gross income of up to \$38,250 and joint filers with an AGI of up to \$76,500; the credit maxes out with a contribution of \$2,000 for singles and \$4,000 for marrieds filing jointly. It's a nonrefundable credit, meaning it can reduce the amount of

CONTINUED ON PAGE 22

Brought to you by Marcus by Goldman Sachs

CONTINUED FROM PAGE 20

tax you owe, but it can't land you a refund or increase the size of one. "If you fall into the income limits and make retirement plan contributions, be sure to check if you can claim the credit," Fredrickson says. Most tax software will show if you're eligible.

Get ready: An even better tax break is on the way. Starting in 2027, eligible workers can receive a federal match of 50 percent of retirement contributions—up to \$2,000 per year. That government match, called a Saver's Match, must be deposited into your IRA or employer-sponsored retirement plan.

73 IS AN IMPORTANT AGE

Does your 73rd birthday fall in 2024? You must start taking required minimum distributions (RMDs) from your 401(k), 403(b) or traditional IRA. These annual withdrawals, which change in size each year, are calculated using an IRS life expectancy table and your retirement account's value as of the previous Dec. 31; to determine yours, use the RMD calculator at aarp.org/calculators.

As a 73-year-old taking your first RMD (that starting age was previously 70½, then 72), you have to withdraw that money by April 1, 2025. Everyone 74 and older must take their RMDs by the end of this year. One exception: If you're still employed and you don't own more than 5 percent of the business, you can delay taking RMDs from your employer's workplace plan until you retire.

If you fail to take your RMD, the IRS will levy a penalty, though it was reduced under Secure 2.0 from 50 percent of the amount you neglected to withdraw to 25 percent. If you take the distribution within two years, the penalty could drop to 10 percent.

Give and save: You can minimize taxes by making qualified charitable distributions (QCDs)—tax-free donations directly from a traditional IRA. In 2024, people 70½ or older can donate as much as \$105,000; if you're 73 or older, the amounts can help satisfy RMDs. "Since most people no longer itemize and get deductions for donations, a QCD can be a better tax move for those seeking to give to charity," says Andrew Sloan, a financial planner in Louisville, Kentucky.

ROTH 401(K)S ARE MORE APPEALING

If you haven't thought about putting money into a Roth 401(k) instead of a traditional

401(k), the Secure 2.0 Act has given you one reason to reconsider. As with Roth IRAs, Roth 401(k)s are funded with after-tax dollars, and withdrawals of earnings are tax-free, if you don't take them before age 59½. (In contrast, contributions to traditional 401(k)s are tax-deductible, but withdrawals are taxed as ordinary income.)

Starting this year, Roth 401(k) accounts are exempt from RMDs, as was already the case with Roth IRAs. Previously, Roth 401(k) savers had to take RMDs from their accounts once they reached a certain age.

Consider your options: A big appeal of Roth 401(k)s is that contribution limits are higher than those of Roth IRAs, enabling you to build more tax-free savings. "Having both taxable and tax-free accounts can provide valuable tax diversification in retirement," says Joel Dickson, head of advice methodology at Vanguard. Though 80 percent of retirement plans managed by Vanguard offer a Roth option, only 17 percent of participants use one if it's offered, the company reports.

MORE CHANGES MAY BE COMING

The Secure 2.0 Act includes a wide variety of other features that employers are permitted to add to their retirement plans. Among them are expanded options for annuities, a penalty-free withdrawal of up to \$1,000 for emergency expenses, and matching contributions to a 401(k) plan, 403(b) plan or SIMPLE (Savings Incentive Match Plan for Employees) IRA for qualified student loan repayments.

But don't expect to see many of these features in your plan this year. In a recent survey, Alight Solutions found that only 5 percent of employers were very interested in adding annuities to their plans. Just 32 percent were definitely or likely to add the \$1,000 emergency withdrawal provision. "Many employers are waiting on more legal guidance for these options," says Rob Austin, head of research at Alight Solutions.

Get help now: About half of employers offer workers financial advice and retirement income options, such as installment payments and managed accounts, says David Blanchett, head of retirement research at PGIM. Check to see whether your plan provides such low-cost or free choices. ■

Penelope Wang is an award-winning personal finance journalist who has worked at Consumer Reports and Money magazine.



Financially Speaking

BY GEORGE MANNES

I am divorced after a 20-year marriage and haven't remarried. I claimed Social Security early based on my own record, since it was higher than my spousal benefit. But my ex-husband kept working, so now my spousal benefit would be higher than what I'm receiving. Can I switch?

No, but you still might land a higher benefit someday. When you initially applied, Social Security automatically considered your spousal benefits versus benefits based on your record and awarded you the higher of the two. You're stuck with that unless your ex-spouse dies before you do, explains Mary Beth Franklin, author of *Maximizing Social Security Retirement Benefits*. If that happens, you'll be entitled to 100 percent of the benefit he's collecting—presumably a bump up. It won't matter if he remarried, and your claim won't affect anyone else's benefits. Receiving that extra money isn't automatic, though; you'll need to apply for it with the SSA after his death. Franklin says, "I always tell divorced spouses to follow their ex on Facebook in case he dies."

My husband and I are in our mid-70s. Our son lives in a house we bought for \$80,000. It's now worth \$250,000. We would like to deed it to him. But for tax reasons, would it be better to leave it to him in our will?

"The devil is in the details," says Steven J. Fromm, a tax and estate attorney in Philadelphia. But in this case, Fromm would advise you to leave your son the house in your will. Why? Say you give him the house now. If he ever sells it, the house's basis—the amount that the IRS will use to calculate capital gains tax on the sale—will be your purchase price of \$80,000 plus any money spent on improvements. If, on the other hand, he inherits the house, the basis will "step up" to the house's value at the time of your death, likely at least \$250,000. In that scenario, the step-up in basis could save him a lot on taxes if he sells. (The selling price and his residence there as an owner will also factor in.) "It's nearly always better to get the step-up in basis," Fromm says.

Either way, there are no income tax consequences for you and your husband. If you give your son the house now, you'd have to file an IRS gift tax return. But you'd owe gift taxes only on the off chance that you've already doled out \$27 million in other gifts.

AARP executive editor George Mannes has covered personal finance for over 20 years. Send your money-related questions to yourmoney@aarp.org. Due to the volume of inquiries, he can't answer every question.