

CONTRIBUTIONS Are Key to Retirement Saving Success



CONTRIBUTIONS

Appropriate contribution limits are important to the success of retirement saving.

- Low contribution limits can stunt individuals' ability to save adequately for retirement and stifle a system's growth.
- In the United States, defined contribution (DC) plans have higher contribution limits than individual retirement accounts (IRAs), which make DC plans attractive to employers.
- To ensure that the benefits of the retirement plans accrue to workers across the entire income distribution, there are rules that restrict the contributions to the plan by highly compensated employees relative to those by non-highly compensated employees. Plans may also satisfy such requirements by use of employer contributions.
- Older workers are permitted to make larger contributions, called "catch-up" contributions.



LAWS

By statute, the US Internal Revenue Service updates the contribution limits for inflation each year.

- For 401(k) plans, a popular DC plan, the limits are:
 - \$19,500 for individuals younger than 50
 - \$6,500 additional catch-up for individuals aged 50 or older
 - \$57,000 in total contributions, including employer contributions
- For IRAs, the limits are:
 - \$6,000 for individuals younger than 50
 - \$7,000 for individuals aged 50 or older (includes catch-up)

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RESULTS

Retirement savers respond to contribution design features.

Nine out of 10 401(k) plan participants are in plans with employer contributions, which can promote worker participation.



Often, the employer contribution is in the form of a matching contribution, which encourages workers to contribute to reach the full match amount.

Among US workers, the average 401(k) contribution rates are:

Participant contribution rate **6.9% of pay**

Total contribution rate
(participant + employer) **10.6% of pay**



RESOURCES

Retirement Topics: 401(k) and Profit-Sharing Plan Contribution Limits

www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-401k-and-profit-sharing-plan-contribution-limits

IRA FAQs: Contributions

www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-contributions

Operating a 401(k) Plan

www.irs.gov/retirement-plans/operating-a-401k-plan

The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2016

www.ici.org/pdf/19_ppr_dcplan_profile_401k.pdf

How America Saves 2019: Vanguard 2018 Defined Contribution Plan Data

pressroom.vanguard.com/nonindexed/Research-How-America-Saves-2019-Report.pdf