2019- The Year to Make Retirement Savings a Priority

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New 401(k) and IRA Limits for 2019

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Retirement savers will be able to contribute $500 more to 401(k)s and individual retirement accounts in 2019. Workers with slightly higher incomes will also qualify to contribute to Roth IRAs and claim the retirement saver's tax credit. Here's how the retirement account rules will change in 2019.

The 2019 401(k) contribution limit. The contribution limit for 401(k)s, 403(b)s, most 457 plans and the federal government's Thrift Savings Plan will increase from $18,500 in 2018 to $19,000 in 2019. "If you're already maxing out your retirement account, the best thing to do is to simply increase your paycheck deferrals slightly so that you continue to automatically max out your retirement account at these new, higher limits," says Meg Bartelt, a certified financial planner and president of Flow Financial Planning in Bellingham, Washington. "The $500 higher max allows you to get a bit more tax benefit on retirement savings." Workers can defer paying income tax on approximately $42 more per month as a result of this change. The 401(k) catch-up contribution limit for employees age 50 and older is unchanged at $6,000. Older workers can contribute a maximum of $25,000 to 401(k) plans in 2019.

The 2019 IRA contribution limit. The IRA contribution limit will also grow by $500 to $6,000 in 2019, the first increase in the limit since 2013. "The extra $500 invested will also compound over time making the additional contributions especially valuable for young folks," says Ryan Cole, a certified financial planner for Citrine Capital in San Francisco. "For example, an extra $500 invested annually would amount to $100,000 in extra retirement savings (over 35 years), assuming just 8 percent returns in the retirement plan. The result is a much more comfortable retirement for those who choose to take advantage of the increase." However, the IRA catch-up contribution limit for those age 50 and older is not subject to a cost-of-living adjustment and will remain $1,000.

Traditional IRA income cutoffs for 2019. Workers who don't have access to a 401(k) plan or similar type of retirement account through their job can contribute to a tax-deductible IRA regardless of how much they earn. However, employees who are eligible for a 401(k) plan may be prohibited from additionally claiming a tax deduction on an IRA contribution if they earn too much. "If you are covered by an employer plan, your ability to deduct IRA contributions is based on the contribution limits and how you file, such as single, married filing joint, to determine whether you can deduct all, partial or none of the IRA contribution," says Laura Morganelli, a certified financial planner for Abacus Wealth Partners in Philadelphia. "However, even if you cannot deduct your IRA contribution, you still receive the benefit of tax-deferred growth."

401(k) participants are prohibited from claiming a tax deduction for a 2019 IRA contribution if they earn more than $74,000 as an individual and $123,000 as a married couple filing jointly, up $1,000 and $2,000, respectively, from 2018. The tax deduction is phased out for individuals earning more than $64,000 and couples earning more than $103,000 in 2019. If only one member of a married couple is eligible for a 401(k) plan at work, the IRA tax deduction is phased out if the couple's income is between $193,000 and $203,000 in 2019, up $4,000 from the previous year.

Roth IRA income limits for 2019. After-tax Roth IRA contributions allow you to qualify for tax-free investment growth and tax-free withdrawals in retirement. Workers can earn $2,000 more in 2019 ($4,000 for couples) and remain eligible to contribute to a Roth IRA. The ability to make Roth IRA contributions is phased out for workers who earn more than $122,000 as an individual and $193,000 as a married couple in 2019. Those who earn more than $137,000 as an individual or $203,000 as a married couple aren't able to directly contribute to a Roth IRA in 2019. "The advantage of a Roth account is that any withdrawals in retirement are not taxed," Morganelli says. "Therefore, if you are in a lower tax bracket and having contributions that are tax deductible would not be beneficial, a Roth account is a fantastic choice."