

## Planning the Maximum: Retirement Contribution Limits in 2006 and 2007

For people who can afford to put away money in their retirement accounts, the decision of how much to put in often comes at the last minute, meaning at yearend or at the minute they're filing their taxes. But it's very important to keep track of contribution limits on a yearly basis so you can plan ahead to have the money available.

With the passage of the Pension Protection Act of 2006, the government will lift expiration provisions that would have limited contributions on many of these accounts over the long-term. Now, taxpayers will be able to save more at a time when most experts say the nation's retirement nest egg is way too low.

Here are the contribution limits currently allowed for tax year 2006 in hopes that investors might have a little more time to plan:

**401(k) contributions:** August's new pension law makes permanent higher contribution limits that were to have expired in 2011. That means the current annual contribution limit on 401(k)s, now at \$15,000 -- and adjusted for inflation next year to \$15,500 -- won't fall back to \$13,000 as originally planned. That could potentially lead to hundreds of thousands of dollars of difference in final savings.

**Solo 401(k) contributions:** Solo 401(k)s are 401(k)s designed for individual businesspeople. Employees may be allowed to contribute up to \$15,000 of their income and additional profit-sharing contributions as long as total contributions don't exceed \$44,000 for the 2006 plan year. That limit -- which applies to all defined contribution plans -- rises to \$45,000 in 2007.

**403(b) contributions:** Also up to a maximum of \$15,000 in 2006 and \$15,500 in 2007.

**Traditional and Roth IRA contributions:** In 2006, the maximum individual contribution will be the smaller of the following amounts: \$4,000 or your taxable employment compensation for the year. For 2006, if you're a taxpayer who is an active participant in a retirement plan at work, the ability to deduct your contributions to a traditional IRA will be phased out if your Modified Adjusted Gross Income (MAGI) is more than \$75,000 but less than \$85,000 for a married couple filing a joint return or a qualifying widow(er); more than \$50,000 but less than \$60,000 for a single individual or head of household, or less than \$10,000 for a married individual filing a separate return. Meanwhile, the Roth IRA contribution is phased out for MAGI from \$95,000 to \$110,000. For married couples filing jointly, the phase-out runs from \$150,000 to \$160,000.

**Simplified Employee Pension (SEP) plans:** The maximum deduction for contributions to a SEP remains unchanged at 25 percent of the compensation paid or accrued during the year to eligible employees participating in the plan. However, for 2006, the maximum combined deduction for a participant's elective deferrals and other SEP contributions has increased to \$44,000. On the contribution side, for 2006, the annual limit on the amount of employer contributions to a SEP has increased to the smaller of 25 percent of the eligible employee's compensation, or \$44,000 (subject to cost-of-living increases).

**SIMPLE IRAs:** Eligible employees in SIMPLE plans -- which are funded by employer contribution and elective employee salary deferrals -- can elect to contribute up to 100 percent of compensation up to a maximum of \$10,000 for the 2006 plan year through salary reduction -- that amount will rise to \$10,500 in 2007. Participants age 50 and older in 2006 may be able to make an additional annual \$2,500 catch-up elective deferral contribution to their SIMPLE-IRA.

Other catch-up options: For 2006, a 401(k) and 403(b) plan participant as well as traditional and Roth IRA participants who are age 50 or older at the end of the calendar year are allowed to make catch-up contributions of up to \$5,000. That amount will be adjusted for inflation beginning next year. The catch-up amount is the same for Solo 401(k) s and Thrift Savings Plans (TSPs) as well.

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