IRS Announces Increased Contribution Limits for 401K Plans Due to Inflation

October 24, 2022 - Every year, the IRS announces new contribution limits for 401k savings plans for 2023. These are plans that are employer-sponsored and which employees can choose to contribute to for their retirement. In most cases they involve some sort of matching contribution from the employer. The annual increase is based on the rate of inflation. And this year, the high rate of inflation has forced the IRS to increase contribution amount by a record number.

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In 2022, the maximum amount that anyone can contribute to their 401k is 20,500. That's $1,000 higher than in 2021. But inflation has forced the IRS to announce new contribution limits for next year that eclipse prior year increase amounts. Next year, contributors will be able to place $22,500 in their plans; an increase of $2,000.

Because of the employer match, 401k plans are one of the very best ways for people to save for retirement. In most cases, these plans give employees a number of investment options for their money. Furthermore, they can be structured similarly to a traditional IRA - which defers taxes until the money is withdrawn - or like a Roth IRA - which taxes the contributions at the time they are made but for which there are no taxes at the time of withdrawal.

Those participating in 401k plans also have the option of rolling their plan over to an IRA if they leave their company but don't plan to retire right away.

As long as inflation continues at its current pace, we can expect to see more increases in contribution limits like this.
by Jim Malmberg
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