PERSONAL FINANCE

Now's the time to boost 401(k) contributions for 2022

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KEY POINTS

- You can funnel $20,500 into your 401(k) plan for 2022, up from $19,500 from 2021.
- Boosting your contribution rate now offers more time for growth, and may make it easier to meet yearly goals.
- But you need to know how your company's 401(k) match works before front-loading deposits, experts say.

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Planning to save more this year? There's a higher 401(k) employee deferral limit for 2022, and now's the time to boost contributions, financial experts say.

Employees may funnel $20,500 into 401(k), 403(b) and other plans for 2022, up from $19,500 in 2021, thanks to cost-of-living adjustments from the IRS, and catch-up deposits for investors 50 and older are $6,500.

"You're smart to jump on this," said certified financial planner Catherine Valega, wealth consultant at Green Bee Advisory in Winchester, Massachusetts. "Most people set [401(k) contributions] once and never look back."

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If you aim to max out 401(k) contributions for 2022, it may pay off to start early, as spreading it out may be more manageable than year-end increases.

And more time in the market may offer more growth potential, said Marguerita Cheng, a Washington-based CFP, CEO and co-founder of Blue Ocean Global Wealth and a member of CNBC's Advisor Council.

"The sooner you can increase your contributions, the sooner you can have your money working for you," she said.

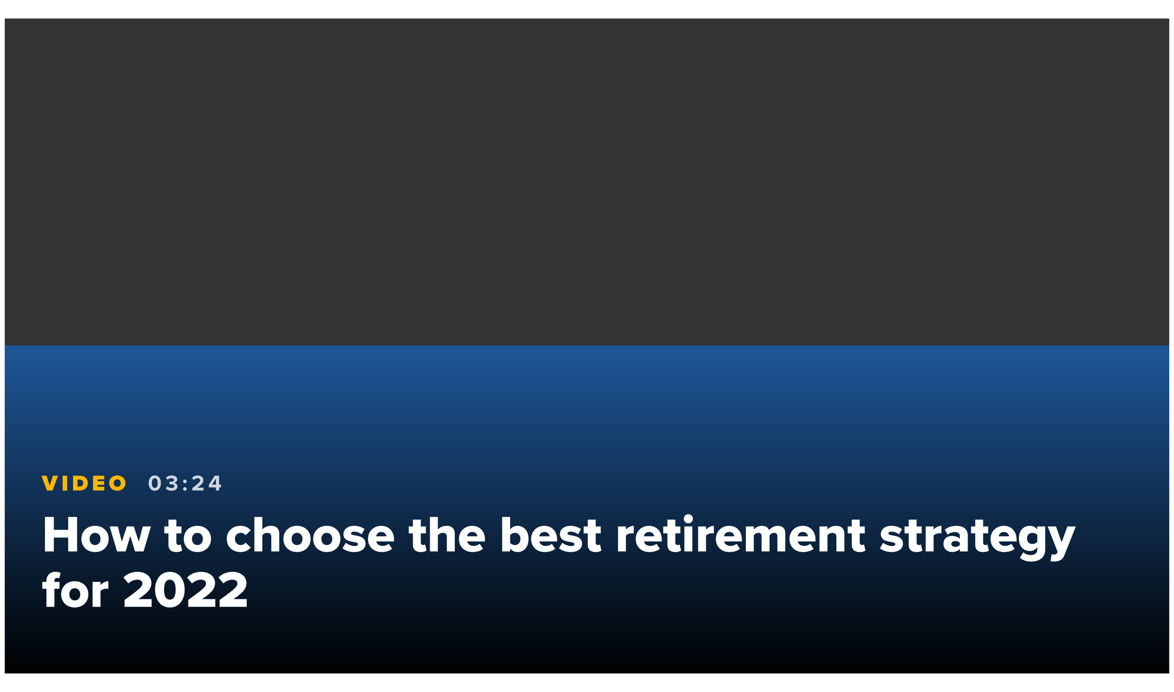
Front-loading 401(k) contributions

Higher earners may also consider front-loading 401(k) contributions to reach the deferral limit before year-end.

For example, if someone receives an October bonus, they may front-load 401(k) contributions to max out the plan, freeing up more take-home pay for November and December.

Before maxing out the plan early, however, you need to know how your 401(k) match works, Valega said. Many companies only kick in matching funds when you defer part of your paycheck.

In that case, you won't receive the full employer match unless you make 401(k) contributions every pay period.



However, other plans have what's known as a "true-up," meaning the company calculates the 401(k) match on an annual basis rather than every pay period.

"It means they don't really care when you put in your money," said Valega. "They will make sure that you get the full match at the end of the year."

You can learn more about your match by checking your 401(k) summary plan description, which covers how the account works or reviewing the document with a financial advisor.

Reasons not to max out your 401(k)

While maxing out 401(k) contributions is a lofty goal, there are reasons why you may decide to limit deferrals after receiving the full company match.

"This, of course, may vary depending on goals," said Marianela Collado, a CFP and CPA at Tobias Financial Advisors in Plantation, Florida.

For example, if you're saving a down payment for a home, you may decide to re-route funds until meeting your short-term goal, she said.

Likewise, if you're sitting on high-interest credit card debt or don't have an emergency fund, you may allocate money elsewhere before increasing 401(k) deferrals.

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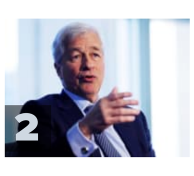
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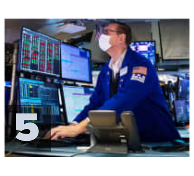
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