

401(k) Planning for 2023

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Key Takeaways

- » 2023 maximum 401(k) contribution for employees under age 50: \$22,500
- » 2023 maximum 401(k) contribution for employees aged 50 and over: \$30,000
- » Limits increased from 2022 by \$2,000 (under 50) and \$3000 (over 50)
- » Dollar-cost averaging reduces the volatility of investments and may yield more favorable results than market timing
- » Optimal percentage deferral elections to maximize 2023 401(k) contributions

Maximizing 401(k) Savings in 2023

On October 21, 2022, the IRS announced new limits on 2023 employee 401(k) contributions, which represent the largest percentage annual increase on record. Contribution limits will increase by \$2,000 for employees under age 50, from \$20,500 in 2022 to \$22,500 in 2023. For employees aged 50 and over, the catch-up contribution will be \$7,500, for a total maximum allowable 2023 contribution of \$30,000, up from \$27,000 in 2022.

The benefits of regular and disciplined contributions to tax-deferred savings plans are widely known, but how often do we stop and ponder the long-term impact of maximizing our 401(k) contributions for just one year? With the costs of everyday life on the rise, it may be tempting to take the money now instead of setting aside funds into an account that cannot be touched. When making contribution elections, it may be helpful to review an illustration depicting the potential long-term value of just one year of maximum 401(k) savings. As an example, we will assume an annual compounded 20-year growth rate of 5%. What would that one year of savings yield in year 2043 under this relatively conservative growth assumption?

ILLUSTRATION 1:

2023 Maximum Employee 401(k) Contributions

Not including potential company matches. Resulting 20-year ending values at annual compounded growth rate of 5%

| Assumed Year-End Value | Under 50 | 50 and Over |
|------------------------|----------|-------------|
| 2023 | \$22,500 | \$30,000 |
| 2024 | \$23,625 | \$31,500 |
| 2025 | \$24,806 | \$33,075 |
| 2026 | \$26,047 | \$34,729 |
| 2027 | \$27,349 | \$36,465 |
| 2028 | \$28,716 | \$38,288 |
| 2029 | \$30,152 | \$40,203 |
| 2030 | \$31,660 | \$42,213 |
| 2031 | \$33,243 | \$44,324 |
| 2032 | \$34,905 | \$46,540 |
| 2033 | \$36,650 | \$48,867 |
| 2034 | \$38,483 | \$51,310 |
| 2035 | \$40,407 | \$53,876 |
| 2036 | \$42,427 | \$56,569 |
| 2037 | \$44,548 | \$59,398 |
| 2038 | \$46,776 | \$62,368 |
| 2039 | \$49,115 | \$65,486 |
| 2040 | \$51,570 | \$68,761 |
| 2041 | \$54,149 | \$72,199 |
| 2042 | \$56,856 | \$75,809 |
| 2043 | \$59,699 | \$79,599 |

Though the markets will certainly fluctuate, and the potential growth will not necessarily follow a straight trajectory, the above illustration depicts a general idea of the accumulation of value to be realized at a relatively conservative 5% annual earnings rate. Further, when factoring in the tax savings on 401(k) contributions, assuming a 25% effective tax rate, the net 2023 cost of that investment would be \$16,875 for those under age 50 and \$22,500 for those aged 50 and over.

By systematically investing fixed-dollar amounts into a tax-deferred retirement savings plan, the risk of market fluctuations can be more evenly balanced out. Dollar-cost averaging allows for more shares to be purchased at lower prices and fewer shares at higher prices, likely resulting in an overall lower cost per share than if all shares had been purchased at one time.

ILLUSTRATION 2: Optimal 2023 401(k) Contribution Election Amounts

Base salary only

| 2023 Salary | Target Under 50 | Target 50 & Over | 2023 Salary | Target Under 50 | Target 50 & Over | 2023 Salary | Target Under 50 | Target 50 & Over | 2023 Salary | Target Under 50 | Target 50 & Over | 2023 Salary | Target Under 50 | Target 50 & Over | 2023 Salary | Target Under 50 | Target 50 & Over |
|-------------|-----------------|------------------|-------------|-----------------|------------------|-------------|-----------------|------------------|-------------|-----------------|------------------|-------------|-----------------|------------------|-------------|-----------------|------------------|
| \$50,000 | 45% | 60% | \$220,000 | 10% | 14% | \$390,000 | 6% | 8% | \$560,000 | 4% | 5% | \$730,000 | 3% | 4% | \$900,000 | 3% | 3% |
| \$55,000 | 41% | 55% | \$225,000 | 10% | 13% | \$395,000 | 6% | 8% | \$565,000 | 4% | 5% | \$735,000 | 3% | 4% | \$905,000 | 2% | 3% |
| \$60,000 | 38% | 50% | \$230,000 | 10% | 13% | \$400,000 | 6% | 8% | \$570,000 | 4% | 5% | \$740,000 | 3% | 4% | \$910,000 | 2% | 3% |
| \$65,000 | 35% | 46% | \$235,000 | 10% | 13% | \$405,000 | 6% | 7% | \$575,000 | 4% | 5% | \$745,000 | 3% | 4% | \$915,000 | 2% | 3% |
| \$70,000 | 32% | 43% | \$240,000 | 9% | 13% | \$410,000 | 5% | 7% | \$580,000 | 4% | 5% | \$750,000 | 3% | 4% | \$920,000 | 2% | 3% |
| \$75,000 | 30% | 40% | \$245,000 | 9% | 12% | \$415,000 | 5% | 7% | \$585,000 | 4% | 5% | \$755,000 | 3% | 4% | \$925,000 | 2% | 3% |
| \$80,000 | 28% | 38% | \$250,000 | 9% | 12% | \$420,000 | 5% | 7% | \$590,000 | 4% | 5% | \$760,000 | 3% | 4% | \$930,000 | 2% | 3% |
| \$85,000 | 26% | 35% | \$255,000 | 9% | 12% | \$425,000 | 5% | 7% | \$595,000 | 4% | 5% | \$765,000 | 3% | 4% | \$935,000 | 2% | 3% |
| \$90,000 | 25% | 33% | \$260,000 | 9% | 12% | \$430,000 | 5% | 7% | \$600,000 | 4% | 5% | \$770,000 | 3% | 4% | \$940,000 | 2% | 3% |
| \$95,000 | 24% | 32% | \$265,000 | 8% | 11% | \$435,000 | 5% | 7% | \$605,000 | 4% | 5% | \$775,000 | 3% | 4% | \$945,000 | 2% | 3% |
| \$100,000 | 23% | 30% | \$270,000 | 8% | 11% | \$440,000 | 5% | 7% | \$610,000 | 4% | 5% | \$780,000 | 3% | 4% | \$950,000 | 2% | 3% |
| \$105,000 | 21% | 29% | \$275,000 | 8% | 11% | \$445,000 | 5% | 7% | \$615,000 | 4% | 5% | \$785,000 | 3% | 4% | \$955,000 | 2% | 3% |
| \$110,000 | 20% | 27% | \$280,000 | 8% | 11% | \$450,000 | 5% | 7% | \$620,000 | 4% | 5% | \$790,000 | 3% | 4% | \$960,000 | 2% | 3% |
| \$115,000 | 20% | 26% | \$285,000 | 8% | 11% | \$455,000 | 5% | 7% | \$625,000 | 4% | 5% | \$795,000 | 3% | 4% | \$965,000 | 2% | 3% |
| \$120,000 | 19% | 25% | \$290,000 | 8% | 10% | \$460,000 | 5% | 7% | \$630,000 | 4% | 5% | \$800,000 | 3% | 4% | \$970,000 | 2% | 3% |
| \$125,000 | 18% | 24% | \$295,000 | 8% | 10% | \$465,000 | 5% | 6% | \$635,000 | 4% | 5% | \$805,000 | 3% | 4% | \$975,000 | 2% | 3% |
| \$130,000 | 17% | 23% | \$300,000 | 8% | 10% | \$470,000 | 5% | 6% | \$640,000 | 4% | 5% | \$810,000 | 3% | 4% | \$980,000 | 2% | 3% |
| \$135,000 | 17% | 22% | \$305,000 | 7% | 10% | \$475,000 | 5% | 6% | \$645,000 | 3% | 5% | \$815,000 | 3% | 4% | \$985,000 | 2% | 3% |
| \$140,000 | 16% | 21% | \$310,000 | 7% | 10% | \$480,000 | 5% | 6% | \$650,000 | 3% | 5% | \$820,000 | 3% | 4% | \$990,000 | 2% | 3% |
| \$145,000 | 16% | 21% | \$315,000 | 7% | 10% | \$485,000 | 5% | 6% | \$655,000 | 3% | 5% | \$825,000 | 3% | 4% | \$995,000 | 2% | 3% |
| \$150,000 | 15% | 20% | \$320,000 | 7% | 9% | \$490,000 | 5% | 6% | \$660,000 | 3% | 5% | \$830,000 | 3% | 4% | \$1,000,000 | 2% | 3% |
| \$155,000 | 15% | 19% | \$325,000 | 7% | 9% | \$495,000 | 5% | 6% | \$665,000 | 3% | 5% | \$835,000 | 3% | 4% | | | |
| \$160,000 | 14% | 19% | \$330,000 | 7% | 9% | \$500,000 | 5% | 6% | \$670,000 | 3% | 4% | \$840,000 | 3% | 4% | | | |
| \$165,000 | 14% | 18% | \$335,000 | 7% | 9% | \$505,000 | 4% | 6% | \$675,000 | 3% | 4% | \$845,000 | 3% | 4% | | | |
| \$170,000 | 13% | 18% | \$340,000 | 7% | 9% | \$510,000 | 4% | 6% | \$680,000 | 3% | 4% | \$850,000 | 3% | 4% | | | |
| \$175,000 | 13% | 17% | \$345,000 | 7% | 9% | \$515,000 | 4% | 6% | \$685,000 | 3% | 4% | \$855,000 | 3% | 4% | | | |
| \$180,000 | 13% | 17% | \$350,000 | 6% | 9% | \$520,000 | 4% | 6% | \$690,000 | 3% | 4% | \$860,000 | 3% | 3% | | | |
| \$185,000 | 12% | 16% | \$355,000 | 6% | 8% | \$525,000 | 4% | 6% | \$695,000 | 3% | 4% | \$865,000 | 3% | 3% | | | |
| \$190,000 | 12% | 16% | \$360,000 | 6% | 8% | \$530,000 | 4% | 6% | \$700,000 | 3% | 4% | \$870,000 | 3% | 3% | | | |
| \$195,000 | 12% | 15% | \$365,000 | 6% | 8% | \$535,000 | 4% | 6% | \$705,000 | 3% | 4% | \$875,000 | 3% | 3% | | | |
| \$200,000 | 11% | 15% | \$370,000 | 6% | 8% | \$540,000 | 4% | 6% | \$710,000 | 3% | 4% | \$880,000 | 3% | 3% | | | |
| \$205,000 | 11% | 15% | \$375,000 | 6% | 8% | \$545,000 | 4% | 6% | \$715,000 | 3% | 4% | \$885,000 | 3% | 3% | | | |
| \$210,000 | 11% | 14% | \$380,000 | 6% | 8% | \$550,000 | 4% | 5% | \$720,000 | 3% | 4% | \$890,000 | 3% | 3% | | | |
| \$215,000 | 10% | 14% | \$385,000 | 6% | 8% | \$555,000 | 4% | 5% | \$725,000 | 3% | 4% | \$895,000 | 3% | 3% | | | |

| | Target Under 50 | Target 50 & Over |
|---------------------------|-----------------|------------------|
| 2023 Maximum Contribution | \$ 22,500 | \$30,000 |

With the new year just around the corner, it is now time to consider your 2023 401(k) contribution elections. Below, we have compiled a quick reference of optimal percentage election amounts for varying base salary levels.

Our wealth planning specialists understand the nuances of maximizing retirement contributions. Working together, they'll help you evaluate these planning opportunities and others based on your circumstances.

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