Planning Strategies: Maximization in 401(k)s; RMD to QCD

The start of a new year can serve as a good time to optimize tax efficiency, wealth building, and charitable giving strategies. Below are 2 such strategies, one for those in the accumulation phase and one for retirees, along with a summary of some implications.

Employee Deferral & Employer Match Maximization in Employer Retirement Accounts

The 401(k) limit for employee salary deferrals for 2024 is $23,000, up from $22,500. The additional catch-up contribution for anyone age 50 or over is $7,500, remaining the same as 2023. The same contribution limits apply to 403(b) plans and most 457 plans, as well as to the federal government's Thrift Savings Plan.

If an employee front-loads their 401(k) contributions to reach the maximum early in the year and the plan does not have a "true up" feature, then some employer matching dollars may be missed during the time periods in which the employee is not contributing. This can also affect those who at any point during the year do not contribute enough to receive the full match.

In most cases, a client could benefit from setting their 401(k) contribution rate at a level that spreads contributions out evenly throughout the year. This both maximizes any employer matching dollars, and allows for cash flow consistency.

Clients who intend to max out their plan may need to review and adjust their contribution rates, taking into account the new annual contribution limits and any pay adjustments.

Required Minimum Distribution (RMD) to Qualified Charitable Distribution (QCD)

If a client doesn't need their RMD funds, and would prefer not to increase their taxable income, they could consider a QCD directly from their IRA to a public charity. QCDs are limited to $100,000/year and are available starting at age 70 ½ (despite RMD beginning ages now being 72 and 75 with the Secure 2.0 Act).

You will want to consider a QCD prior to the RMD being taken. When a client becomes subject to an RMD, the first dollars withdrawn from the IRA are considered the RMD. Additionally, RMDs from a Qualified Plan are required to be taken prior to any rollover to an IRA.

As always, all strategies should be considered on a client-by-client basis, considering their individual financial situation and goals. This is an example of just two financial planning strategies that could make sense for your clients to consider. For help designing custom financial planning strategies, please contact the Financial Planning Department at (855) 558-4287 or planning@vicuscapital.com.

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