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### Retirement Savings Plan Contribution Nuts & Bolts

Last month's issue of *Ed Slott's IRA Advisor* tackled "IRA Contribution Nuts & Bolts" by summarizing the rules for IRA contribution eligibility and deductibility. This month, we turn our attention to the contribution rules for workplace savings plans — 401(k), 403(b) and 457(b) governmental plans.

#### Eligibility

Some retirement savings plans allow employees to participate as soon as they start working. However, 401(k) plans can be more restrictive by requiring employees to first complete a year of service (a 12-month period with at least 1,000 hours of service) and attain age 21. Part-time employees who cannot satisfy the 1,000 hour requirement can also become eligible by working at least 500 hours in three consecutive years.

403(b) plans can generally only exclude employees who normally work fewer than 20 hours per week and normally allow eligible employees to make salary deferrals right away.

Municipal 457(b) plans are not required to be offered to all employees and may exclude specific classes of employees, but that is uncommon. A special "first day of the month" rule applies to 457(b) plans only. This rule requires employees who wish to begin making

elective deferrals in a particular month to make an election prior to the beginning of that month. New employees can defer during the first month of employment by making an election on or before the first day of work.

#### Compensation Limits

The Internal Revenue Code imposes a dollar limit on the amount of compensation that can be considered for **employer** contributions. This maximum amount, which is indexed periodically, is \$305,000 for 2022.

**Example 1:** George, age 52, is the CFO of Vandelay Industries and participates in its 401(k). The plan matches 50% of each employee's elective deferrals up to 6% of compensation. George defers \$27,000 in 2022 and earns \$400,000 this year. Since the plan can only recognize \$305,000 of George's compensation, his match will be limited to \$9,150 (50% x 6% x \$305,000). Without the \$305,000 maximum, his match would have been \$12,000 (50% x 6% x \$400,000).

The compensation limit has no practical effect on **employee** contributions. However, employee contributions may be limited due to nondiscrimination testing requirements. 401(k) plans are subject to both the

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