You Can Put More into Your 401(K) This Year

Once you retire, you'll likely need to draw on a variety of financial sources — and one of the most important ones may be your 401(k). And for 2025, you can put even more money into your plan than ever.

You can invest in your 401(k) in one of two ways, depending on your employer's plan. With a traditional 401(k), you contribute pre-tax dollars, which can lower your taxable income, and your money can grow tax deferred. If you have a Roth 401(k) option, you can contribute after-tax dollars, which aren't deductible, but your eventual withdrawals will be tax-free if you've had your account at least five years and you're at least 59½.

For either a traditional or Roth 401(k), as well as similar plans such as a 457(b) (for government employees) or a 403(b) (for educators and employees of some nonprofit groups), the contribution limit has increased by $500 for 2025, to $23,500. If you're 50 or older, you can contribute an additional $7,500, for a total of $31,000. And under the SECURE 2.0 legislation, if you are between 60 and 63, you have a higher catch-up contribution — $11,250, instead of $7,500, for a total of $34,750.

If you can afford to contribute the full amount to your 401(k) or similar plan, consider doing so. Of course, not everyone is in that position. If you're a younger worker, you may well have other financial obligations, such as paying off student loans. And even if you've been in the workforce for a while, you may be putting away money for other things — such as your children's education — as well as your own retirement. But even if you can't "max out" on your 401(k), try to contribute at least enough to earn your employer's matching contribution, if one is offered.

Regardless of how much you contribute to your 401(k), consider these suggestions on managing the money within your plan:

• **Create a portfolio that fits your risk tolerance.** Most 401(k) plans offer up to a dozen investment options, while some plans offer many more. You obviously want to increase your 401(k) balance as much as possible, but that doesn't necessarily mean putting all your 401(k) dollars into the most aggressive funds available. Instead, consider spreading your 401(k) contributions among a range of investments, which can help you lower your risk level while still giving you opportunities for long-term growth. Everyone's risk tolerance is different, though, so you'll want to evaluate yours when constructing your 401(k) portfolio.

• **Adjust your portfolio as needed.** It's a good idea to review your 401(k)'s investment mix at least once a year to see if it's performing as you'd hoped. But be patient — one "down" year doesn't necessarily mean you must make changes. However, as you approach retirement, you may want to lower the risk level of your 401(k) by moving some of your dollars into more conservative vehicles. Still, even when you're retired and have started drawing money from your 401(k), you might want to keep some growth potential in it to help you stay ahead of inflation.

By contributing what you can afford to your 401(k), and by carefully managing the investments within your plan, you can help maximize the value of this powerful retirement savings vehicle — and give yourself a key asset to help you enjoy your retirement years.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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1 – Feb. 3, 2025
553 words