

Plan

Catch-up Contributions — Making Up for Lost Time

If you are age 50 or older, there are special tax rules that let you catch up on your savings. How? You can catch up on your savings by contributing extra amounts to a retirement savings plan and/or an individual retirement account (IRA).

Saving Through Your Employer

Many workplace retirement plans give employees an opportunity to contribute part of their pay on a pretax basis.* If you participate, you don't pay income taxes on the money you contribute to your plan — or on the money your contributions earn — until you receive distributions from the plan (usually when you retire).

“No matter how old you are, maximizing your retirement plan contributions is a ‘tax-smart’ way to prepare for the future.”

The tax law limits the amount employees can contribute every year. For 2008, the limit is \$15,500 (\$10,500 for a SIMPLE).

But, if your plan allows it, you can contribute even more once you reach age 50 with a catch-up contribution. The maximum catch-up contribution for 2008 is \$5,000 (\$2,500 for a SIMPLE).

Saving on Your Own

A similar opportunity exists with IRAs. If you're at least age 50, you can contribute up to \$6,000 of compensation for 2008 — \$1,000 more than the \$5,000 contribution limit that generally applies. And there's no rule against contributing to an employer's plan and an IRA — you can do both.

The annual contribution limits will be higher in the future. No matter how old you are, maximizing your retirement plan contributions is a “tax-smart” way to prepare for the future.

* These plans include 401(k), 403(b), 457(b), and SIMPLE plans.



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	After 5 years	After 10 years	After 15 years
Save an additional \$1,000/year	\$5,966	\$14,424	\$26,414
Save an additional \$2,500/year	\$14,915	\$36,059	\$66,034
Save an additional \$5,000/year	\$29,831	\$72,119	\$132,068

Each example assumes a 7% annual return, compounded monthly. This rate is used for illustrative purposes only; your returns may be different. The calculated balances only reflect the additional catch-up contributions and earnings for each participant.

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