**Modest 401(k) and IRA Changes Coming in 2014**

**Workers with slightly higher incomes will qualify for retirement-savings tax deductions and credits**

By [Emily Brandon](http://money.usnews.com/topics/author/emily_brandon)

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The amount workers can contribute to 401(k)s and individual retirement accounts will stay the same in 2014. Inflation, as measured by the Consumer Price Index, did not increase enough to justify raising the contribution caps. "Some pension limitations such as those governing 401(k) plans and IRAs will remain unchanged because the increase in the Consumer Price Index did not meet the statutory thresholds for their adjustment," according to a statement from the Internal Revenue Service. But some of the income thresholds that allow savers to qualify for tax deductions and credits will increase next year. Here's a look at how 401(k) and IRA rules will change in 2014:

**[See:** [**6 Ways Retiring Can Be More Affordable**](http://money.usnews.com/money/personal-finance/mutual-funds/slideshows/6-ways-retiring-can-be-more-affordable)**.]**

**Limits for 401(k) contributions unchanged**. Taxpayers may contribute up to $17,500 to their 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan in 2014, which is the same amount as in 2013. The catch-up contribution limit for employees age 50 and older is also unchanged at $5,500. In 2012, 11 percent of 401(k) participants contributed the maximum possible amount, according to a Vanguard study of 2,000 401(k) plans with 3 million participants. Some 401(k) plans also have lower plan-specific caps on contributions.

**IRA contribution limits unaffected**. The limit on IRA contributions will continue to be $5,500 in 2014. Individuals age 50 and older can contribute an additional $1,000, the same catch-up contribution as in 2013. Just under half (47 percent) of IRA savers contributed the maximum amount in 2011, according to an Employee Benefit Research Institute analysis of 20.5 million accounts.

**Larger IRA income limits**. The tax deduction for traditional IRA contributions is phased out for savers with a workplace retirement plan who have modified adjusted gross incomes between $60,000 and $70,000, up from $59,000 and $69,000 in 2013. The income phase-out range for married couples with retirement accounts at work will also climb by $1,000 to between $96,000 and $116,000. For investors who don't have a workplace retirement plan but are married to someone who does, the tax deduction is phased out if the couple's income is between $181,000 and $191,000, which is $3,000 more than in 2013.

**Higher Roth IRA income cutoffs**. Workers can earn $2,000 more ($3,000 for couples) in 2014 and still be eligible to contribute to a Roth IRA. The AGI phase-out range for Roth IRAs is $114,000 to $129,000 for singles and heads of household and $181,000 to $191,000 for married couples. However, investors who earn more than these income limits may still be able to convert traditional IRA assets to a Roth. "Even if you are phased out by income from making a Roth contribution, you can contribute to a traditional IRA that is nondeductible and then convert that to a Roth," says Lara Lamb, a certified financial planner and founder of Lamb Financial Planning in Encino, Calif. "However, you need to be aware that the conversion might be taxed."

**Bigger saver's credit threshold**. Low- and moderate-income workers who save for retirement in 401(k)s and IRAs are eligible to claim a tax credit that can be worth as much as $1,000 for individuals and $2,000 for married couples. Couples can claim the saver's credit until their AGI exceeds $60,000, which is $1,000 more than in 2013. The income limits are $45,000 for heads of household and $30,000 for individuals, up from $44,250 and $29,500, respectively, last year. Saver's credits were claimed on 6.1 million tax returns in 2010, but most people received small benefits. The average saver's credits were $122 for individuals, $165 for heads of household and $204 for couples.

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# How Social Security Will Change in 2014

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Social Security beneficiaries will receive 1.5 percent bigger checks in 2014, the Social Security Administration announced today. The program will also be changed in several other important ways beginning in January. Here’s how recent tweaks to the Social Security program will impact workers and retirees next year:

**Larger payouts.** The 1.5 percent cost-of-living adjustment is expected to increase the average Social Security benefit for retired workers by $19 to $1,294. The average benefit for couples who are both receiving benefits will climb by $31 to $2,111 after the cost-of-living adjustment.

The 1.5 percent cost-of-living adjustment is similar to the 1.7 percent increase Social Security beneficiaries received in 2013. Previous cost-of-living adjustments have ranged from zero in 2010 and 2011 to 14.3 percent in 1980. Other years with increases of around 1 percent include 1987 (1.3 percent), 1999 (1.3 percent) and 2003 (1.4 percent). Social Security payments have been automatically adjusted each year to keep up with inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers since 1975.

**Higher tax cap.** Most workers will pay 6.2 percent of their earnings into the Social Security system until they reach the maximum taxable amount of earnings. The tax cap will increase from $113,700 in 2013 to $117,000 in 2014. Workers who earn above this amount will not pay Social Security taxes on that portion of their income or have that income factored into their retirement benefit. About 6 percent of the 165 million workers who pay Social Security taxes in 2014 will pay higher taxes as a result of this change.

**Bigger earnings limits.** Retirees who are younger than 66 can earn up to $15,480 in 2014 before part or all of their Social Security benefit will be temporarily withheld, $360 more than in 2013. Social Security recipients who earn more than that amount will have $1 in benefits withheld for every $2 they earn above the limit. Beneficiaries who will turn 66 in 2014 can earn up to $41,400, after which one benefit dollar with be withheld for every $3 earned above the limit. When a retiree reaches the month of his or her 66th birthday, the earnings limit no longer applies and any amount can be earned without penalty.

**Maximum possible benefit grows.** The maximum possible benefit a retiree can claim at full retirement age in 2014 is $2,642, up from $2,533 in 2013 and $2,513 in 2012.