

## Financial Q&A: Readers' money questions answered

### Bumping up against a company's retirement-contribution cap.

By Steve Dinnen

Q:

**My employer sets a cap on 401(k) contributions at 20 percent of an employee's annual salary. Since 20 percent of my salary has never reached IRS maximum limit, I can't contribute the maximum amount. Human resources people told me that the company sets this rule to prevent some employees from contributing too much. Can you tell me why my company can do so?**

W.X., via e-mail

A: With corporate pensions largely eliminated and Social Security benefits uncertain, San Diego-based certified financial planner Lisa Gaspard thinks we have to be proactive about saving for retirement. You certainly have the right attitude, she says, but there are a couple reasons employers limit [worker contributions](#).

The first has to do with "nondiscrimination" rules. A company's highly compensated employees (those earning more than \$100,000 annually) cannot contribute much larger amounts to their 401(k)s than lower-paid employees. Some employers have put a cap on every employee's contribution to prevent this from happening.

A second reason is that prior to 2001, total contributions to a worker's 401(k) – including employee contributions, employer matches, and profit-sharing – couldn't exceed 25 percent of salary. That law was changed then, and the limit was raised to 100 percent. But some employers may not have updated their rules.

So, what can you do now?

"Make a fuss!" says Ms. Gaspard. Knock on HR's door again and remind them about how important it is for employees to save for retirement.

In the meantime, work on a Plan B. If you qualify to contribute to a [Roth IRA](#), do so. If your income is below \$99,000 (\$156,000 if you're married), you can put \$4,000 into a Roth in 2007. If you're 50 or older, you can kick in an additional \$1,000.

Finally, if you still have money left to invest, put it in a taxable investment account. Everyone needs money growing outside retirement accounts. If you want to retire before age 59-1/2, you can't tap your retirement accounts without paying a penalty. Also, every penny you pull out of a 401(k) in retirement will be taxed at ordinary income-tax rates. Withdrawals from a taxable account can be taxed at the lower capital-gains rates or not at all, in some cases.

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