

PENSION PLAN LIMITS FOR THE TAX YEAR 2016

The IRS recently announced cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2016. Some pension limitations such as those governing 401k plans and IRAs will remain unchanged because the increase in the Consumer Price Index did not meet the statutory thresholds for their adjustment. However, other pension plan limitations will increase for 2016, as described herein.

2016 Plan Limits Chart

Defined Contribution Limits for Plan Year	2016	2015	2014	2013	2012	2011	2010
401k Elective Deferrals	\$18,000	\$18,000	\$17,500	\$17,500	\$17,000	\$16,500	\$16,500
Annual Defined Contribution Limit	\$53,000	\$53,000	\$52,000	\$51,000	\$50,000	\$49,000	\$49,000
Annual Compensation Limit	\$265,000	\$265,000	\$260,000	\$255,000	\$250,000	\$245,000	\$245,000
Catch-Up Contribution Limit	\$6,000	\$6,000	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
Highly Compensated Employees	\$120,000	\$120,000	\$115,000	\$115,000	\$115,000	\$110,000	\$110,000
Non-401k Related Limits							
Annual Defined Benefit Limit	\$210,000	\$210,000	\$210,000	\$205,000	\$200,000	\$195,000	\$195,000
403(b)/457 Elective Deferrals	\$18,000	\$18,000	\$17,500	\$17,500	\$17,000	\$16,500	\$16,500
SIMPLE Employee Deferrals	\$12,500	\$12,500	\$12,000	\$12,000	\$11,500	\$11,500	\$11,500
SIMPLE Catch-Up Deferral	\$3,000	\$3,000	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
SEP Minimum Compensation	\$600	\$600	\$550	\$550	\$550	\$550	\$550
SEP Annual Compensation Limit	\$265,000	\$265,000	\$260,000	\$255,000	\$250,000	\$245,000	\$245,000
Social Security Wage Base	\$118,500	\$118,500	\$117,000	\$113,700	\$110,100	\$106,800	\$106,800

Please convey these limits to your employees. Not all participants will be able to fund their accounts to the maximum limits, but the amount is a goal they should keep in mind, and the information might just encourage those who can defer extra funds for retirement to do so.

HIGHLIGHTS OF LIMITATIONS THAT REMAIN UNCHANGED FROM 2015 INCLUDE THE FOLLOWING:

- ❖ The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at \$6,000.
- ❖ The limit on annual contributions to an Individual Retirement Arrangement (IRA) remains unchanged at \$5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains \$1,000.
- ❖ The deduction for taxpayers making contributions to a traditional IRA is phased out for those who have modified adjusted gross incomes (AGI) within a certain range. For singles and heads of household who are covered by a workplace retirement plan, the income phase-out range remains unchanged at \$61,000 to \$71,000. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range remains unchanged at \$98,000 to \$118,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.
- ❖ The AGI phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.
- ❖ The AGI limit for the saver's credit (also known as the retirement savings contribution credit) for low- and moderate-income workers is \$61,000 for married couples filing jointly, up from \$60,000 in 2014; \$45,750 for heads of household, up from \$45,000; and \$30,500 for married individuals filing separately and for singles, up from \$30,000.

THE HIGHLIGHTS OF LIMITATIONS THAT CHANGED FROM 2015 TO 2016 INCLUDE THE FOLLOWING:

- ❖ For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between \$184,000 and \$194,000, up from \$183,000 and \$193,000.
- ❖ The AGI phase-out range for taxpayers making contributions to a Roth IRA is \$184,000 to \$194,000 for married couples filing jointly, up from \$183,000 to \$193,000. For singles and heads of household, the income phase-out range is \$117,000 to \$132,000, up from \$116,000 to \$131,000.
- ❖ The AGI limit for the saver's credit (also known as the retirement savings contribution credit) for low- and moderate-income workers is \$61,500 for married couples filing jointly, up from \$61,000; \$46,125 for heads of household, up from \$45,750; and \$30,750 for married individuals filing separately and for singles, up from \$30,500.

The "fine print" on both the unchanged and adjusted limitations for 2016

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. Section 415(d) requires that the Secretary of the Treasury annually adjust these limits for cost-of-living increases. Other limitations applicable to deferred compensation plans are also affected by these adjustments under Section 415. Under Section 415(d), the adjustments are to be made pursuant to adjustment procedures which are similar to those used to adjust benefit amounts under Section 215(i)(2)(A) of the Social Security Act.

Effective January 1, 2016, the limitation on the annual benefit under a defined benefit plan under Section 415(b)(1)(A) remains unchanged at \$210,000. For a participant who separated from service before January 1, 2016, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2015, by 1.0011.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the dollar limitation of Section 415(b)(1)(A). After taking into account the applicable rounding rules, the amounts for 2016 are as follows:

The limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) remains unchanged at \$18,000.

The annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) remains unchanged at \$265,000.

The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan remains unchanged at \$170,000.

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period remains unchanged at \$1,070,000, while the dollar amount used to determine the lengthening of the 5-year distribution period remains unchanged at \$210,000.

The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) remains unchanged at \$120,000.

The dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at \$6,000. The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at \$3,000.

The annual compensation limitation under Section 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under Section 401(a)(17) to be taken into account, remains unchanged at \$395,000.

The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$600.

The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts remains unchanged at \$12,500.

The limitation on deferrals under Section 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations remains unchanged at \$18,000.

The compensation amount under Section 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation remains unchanged at \$105,000. The compensation amount under Section 1.61-21(f)(5)(iii) remains unchanged at \$215,000.

The Code provides that the \$1,000,000,000 threshold used to determine whether a multiemployer plan is a systematically important plan under section 432(e)(9)(H)(v)(III)(aa) is adjusted using the cost-of-living adjustment provided under Section 432(e)(9)(H)(v)(III)(bb). After taking the applicable rounding rule into account, the threshold used to determine whether a multiemployer plan is a systematically important plan under section 432(e)(9)(H)(v)(III)(aa) is increased in 2016 from \$1,000,000,000 to \$1,012,000,000.

The Code also provides that several pension-related amounts are to be adjusted using the cost-of-living adjustment under Section 1(f)(3). After taking the applicable rounding rules into account, the amounts for 2016 are as follows:

The adjusted gross income limitation under Section 25B(b)(1)(A) for determining the retirement savings contribution credit for married taxpayers filing a joint return is increased from \$36,500 to \$37,000; the limitation under Section 25B(b)(1)(B) is increased from \$39,500 to \$40,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$61,000 to \$61,500.

The adjusted gross income limitation under Section 25B(b)(1)(A) for determining the retirement savings contribution credit for taxpayers filing as head of household is increased from \$27,375 to \$27,750; the limitation under Section 25B(b)(1)(B) is increased from \$29,625 to \$30,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$45,750 to \$46,125.

The adjusted gross income limitation under Section 25B(b)(1)(A) for determining the retirement savings contribution credit for all other taxpayers is increased from \$18,250 to \$18,500; the limitation under Section 25B(b)(1)(B) is increased from \$19,750 to \$20,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$30,500 to \$30,750.

The deductible amount under Section 219(b)(5)(A) for an individual making qualified retirement contributions remains unchanged at \$5,500.

The applicable dollar amount under Section 219(g)(3)(B)(i) for determining the deductible amount of an IRA contribution for taxpayers who are active participants filing a joint return or as a qualifying widow(er) remains unchanged at \$98,000. The applicable dollar amount under Section 219(g)(3)(B)(ii) for all other taxpayers (other than married taxpayers filing separate returns) remains unchanged at \$61,000. The applicable dollar amount under Section 219(g)(3)(B)(iii) for a married individual filing a separate return is not subject to an annual cost-of-living adjustment and remains \$0. The applicable dollar amount under Section 219(g)(7)(A) for a taxpayer who is not an active participant but whose spouse is an active participant is increased from \$183,000 to \$184,000.

The adjusted gross income limitation under Section 408A(c)(3)(B)(ii)(I) for determining the maximum Roth IRA contribution for married taxpayers filing a joint return or for taxpayers filing as a qualifying widow(er) is increased from \$183,000 to \$184,000. The adjusted gross income limitation under Section 408A(c)(3)(B)(ii)(II) for all other taxpayers (other than married taxpayers filing separate returns) is increased from \$116,000 to \$117,000. The applicable dollar amount under Section 408A(c)(3)(B)(ii)(III) for a married individual filing a separate return is not subject to an annual cost-of-living adjustment and remains \$0.

The dollar amount under Section 430(c)(7)(D)(i)(II) used to determine excess employee compensation with respect to a single-employer defined benefit pension plan for which the special election under Section 430(c)(2)(D) has been made is increased from \$1,101,000 to \$1,106,000.