

2016 Limitations to Retirement Plans and Social Security Earnings

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Generally each year, the IRS makes cost of living adjustments to many of the limits on benefits from — and contributions to — qualified and non-qualified retirement plans. Recently, the IRS announced the 2016 cost-of-living adjustments for pension plans and retirement-related items. In doing so, the IRS stated that “[i]n general, the pension plan limitations will not change for 2016 because the increase in the cost-of-living index did not meet the statutory thresholds that trigger their adjustment.” In general, the dollar limits are applied on a calendar year basis; however, certain of the dollar limitations are applied on a plan-year, tax-year or limitation-year basis. In addition, the Social Security administration announced the maximum amount of 2016 earnings subject to Social Security tax is unchanged and continues at \$118,500.

The table below sets forth the limitations for 2016 together with the 2014 and 2015 limitations:

	2016	2015	2014
The maximum annual contributions to an individual's defined contribution plan account	The lesser of 100% of the individual's compensation or \$53,000 .	The lesser of 100% of the individual's compensation or \$53,000 .	The lesser of 100% of the individual's compensation or \$52,000 .
Limit on 401(k) "catch-up" contributions	\$6,000	\$6,000	\$5,500
The maximum annual 401(k) contribution by an individual	\$18,000	\$18,000	\$17,500
Maximum annual benefit paid to an individual from defined benefit plan	The lesser of 100% of the individual's average compensation for the highest paid three consecutive years of his or her employment or \$210,000 .	The lesser of 100% of the individual's average compensation for the highest paid three consecutive years of his or her employment or \$210,000 .	The lesser of 100% of the individual's average compensation for the highest paid three consecutive years of his or her employment or \$210,000 .
The maximum amount of an employee's annual compensation which may be taken into account for contribution or benefit calculation purposes	\$265,000	\$265,000	\$260,000
457(b) plan contribution limit	\$18,000	\$18,000	\$17,500
Limit on Catch-Up contributions to 457(b) plan	\$6,000	\$6,000	\$5,500
Compensation paid to an officer that would cause him or her to be classified as a "key employee" for the purpose of top heavy rules	\$170,000	\$170,000	\$170,000
Definition of highly compensated employee	Employee either (1) owns greater than 5% of the ownership interests in the employer, or (2) earned over \$120,000 in 2015 and, if applicable, is in the top 20% of employees when ranked by pay.	Employee either (1) owns greater than 5% of the ownership interests in the employer, or (2) earned over \$120,000 in 2014 and, if applicable, is in the top 20% of employees when ranked by pay.	Employee either (1) owns greater than 5% of the ownership interests in the employer, or (2) earned over \$115,000 in 2013 and, if applicable, is in the top 20% of employees when ranked by pay.
Social Security taxable wage base used in plans whose contribution formulas are integrated with Social Security (this is also referred to as permitted disparity)	\$118,500	\$118,500	\$117,000