

# 2016 Limitations to Retirement Plans and Social Security Earnings

By Paula Calimafde, Arnold Sherman

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