



IRS COLA (Cost Of Living Adjustments) for 2021

IRS COST OF LIVING ADJUSTMENTS FOR 2021

The Internal Revenue Service has announced annual cost-of-living adjustments applicable to pension and profit sharing plans, effective January 1, 2021. In accordance with legislative guidelines, these limitations are adjusted annually to reflect changes in the cost-of-living index. The guidelines are similar to those used to adjust Social Security benefits.

The Internal Revenue Service has announced the cost of living adjustments affecting dollar limitations for retirement plans for the tax year 2021.

401(k)/403(b)/457(b) Plans. The maximum annual elective salary deferral and designated Roth contribution under a 401(k), 403(b), or 457(b) plan remains unchanged at \$19,500.

Catch-up Contributions. 401(k), 403(b), and governmental 457(b) plans may permit participants who are age 50 or older by the end of 2021 to make annual catch-up contributions. Catchup contributions are generally not subject to limitations on the maximum annual elective deferral or other plan limits. The maximum catch-up Contribution remains unchanged at \$6,500.

Defined Contribution Plans. The dollar limit on annual additions under Code Section 415(c) (1)(A) (i.e., all contributions and forfeitures) for participants in defined contribution plans is increased from \$57,000 to \$58,000. The annual addition limitation for 2021 is the lesser of 100% of an individual's compensation or \$58,000. This limitation is not applicable to catch-up contributions.

Qualified Plan Maximum Compensation Limit. The limit on compensation for purposes of calculating contributions and benefits under qualified retirement plans is increased from \$285,000 to \$290,000.

Defined Benefit Plans. The maximum annual benefit under a defined benefit pension plan under Code Section 415(b)(1) (A) remains unchanged at \$230,000. For participants who separated from service prior to January 1, 2021, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2020, by 1.0122.

Highly Compensated Employees. The highly compensated employee (HCE) threshold remains unchanged at \$130,000. To determine the HCE group for nondiscrimination testing, total compensation during the 12-month period preceding the current plan year (the "look-back" year) is used. Total compensation paid to an employee for the look-back year is measured against the highly compensated threshold in effect for the look-back year. Accordingly, the \$130,000 threshold will apply when 2021 is the look-back year.

Key Employee in Top-Heavy Plans. In determining whether an officer is a "key employee" for top-heavy purposes, the dollar limit remains unchanged at \$185,000.

Social Security Taxable Wage Base. The Social Security Administration announced that the taxable wage base increased from \$137,700 to \$142,800 for 2021.

Employee Stock Ownership Plans. 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 is increased from \$1,150,000 to \$1,165,000, while the dollar amount used to determine the lengthening of the 5 year distribution period remains unchanged at \$230,000.

Please contact your CohnReznick Benefits Consultant if you have any questions.

IRS and Social Security Limits and Thresholds on Benefits and Compensation

	2021	2020	2019	2018	2017	2016	2015	2014
Defined contribution 401(k)/403(b)/457(b) plan maximum elective deferral* [402(g)(1)]	\$19,500	\$19,500	\$19,000	\$18,500	\$18,000	\$18,000	\$18,000	\$17,500
Catch-up contribution limit 401(k)/403(b)/govt. 457(b) [414(v)(2)]	\$6,500	\$6,500	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$5,500
Defined contribution maximum annual addition* [415(c)(1)(A)]	\$58,000	\$57,000	\$56,000	\$55,000	\$54,000	\$53,000	\$53,000	\$52,000
Qualified plan maximum compensation limit [401(a)(17)]	\$290,000	\$285,000	\$280,000	\$275,000	\$270,000	\$265,000	\$265,000	\$260,000
Defined benefit maximum annual pension [415(b)(1)(A)]	\$230,000	\$230,000	\$225,000	\$220,000	\$215,000	\$210,000	\$210,000	\$210,000
Highly compensated employee threshold [414(q)(1)(B)]	\$130,000	\$130,000	\$125,000	\$120,000	\$120,000	\$120,000	\$120,000	\$115,000
Key employee-officer compensation threshold for top-heavy plans [416(i)(1)(A)(i)]	\$185,000	\$185,000	\$180,000	\$175,000	\$175,000	\$170,000	\$170,000	\$170,000
Social Security Taxable Wage Base	\$142,800	\$137,700	\$132,900	\$128,400	\$127,200	\$118,500	\$118,500	\$117,000
409(o)(1)(C)(ii) ESOP Limits	\$1,165,000 \$230,000	\$1,150,000 \$230,000	\$1,130,000 \$225,000	\$1,105,000 \$220,000	\$1,080,000 \$215,000	\$1,070,000 \$210,000	\$1,070,000 \$210,000	\$1,050,000 \$210,000

*limit not applicable to catch-up contributions

ADDITIONAL INFORMATION

For specific questions concerning information contained in this Client Alert, please contact your CohnReznick Benefits consultant. Information contained in this Client Alert is designed to highlight various retirement and employee benefit matters of general interest to our readers. It is not intended to interpret laws, regulations or to address specific client situations and is not intended to render tax or legal advice. Employers should consult with qualified legal and/or tax counsel for guidance with respect to matters of law, tax and related regulation. CohnReznick Benefits Consultants provides comprehensive consulting and administrative services with respect to all forms of employee benefits, risk management, qualified and non-qualified retirement plans. For additional information about our services, please contact us at 516.683.6100 or mail@CohnReznickBenefits.com The information contained herein is meant for general educational purposes only.