

# RETIREMENT PLAN SPOTLIGHT

## Cost-of-Living Adjustments (COLA) for 2023

The Internal Revenue Service has announced annual cost-of-living adjustments applicable to pension and profit sharing plans, effective January 1, 2023. 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.

Below is a summary of the cost-of-living adjustments made to the dollar limitations applicable to retirement plans for the 2023 tax year:

**\$22,500**

**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 is increased from \$20,500 to \$22,500.

**\$7,500**

**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 2023 to make annual catch-up contributions. Catch-up contributions are generally not subject to limitations on the maximum annual elective deferral or other plan limits. The maximum catch-up Contribution is increased to \$7,500.

**\$66,000**

**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 \$61,000 to \$66,000. The annual addition limitation for 2023 is the lesser of 100% of an individual's compensation or \$66,000. This limitation is not applicable to catch-up contributions.

**\$330,000**

**Qualified Plan Maximum Compensation Limit.** The limit on compensation for purposes of calculating contributions and benefits under qualified retirement plans is increased from \$305,000 to \$330,000.

**\$265,000**

**Defined Benefit Plans.** The maximum annual benefit under a defined benefit pension plan under Code Section 415(b)(1)(A) is increased from \$245,000 to \$265,000. For participants who separated from service prior to January 1, 2023, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2022, by 1.0833.

**\$150,000**

**Highly Compensated Employees.** The highly compensated employee (HCE) threshold is increased from \$135,000 to \$150,000. 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 \$150,000 threshold will apply when 2023 is the look-back year.

**\$215,000**

**Key Employee in Top-Heavy Plans.** In determining whether an officer is a "key employee" for top-heavy purposes, the dollar limit is increased from \$200,000 to \$215,000.

**\$160,200**

**Social Security Taxable Wage Base.** The Social Security Administration announced that the taxable wage base increased from \$147,000 to \$160,200 for 2023.

**\$265,000**

**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 \$1,230,000 to \$1,330,000. The dollar amount used to determine the lengthening of the 5 year distribution period is increased from \$245,000 to \$265,000.

## IRS and Social Security Limits and Thresholds on Benefits and Compensation

|  | 2023                     | 2022                     | 2021                     | 2020                     | 2019                     | 2018                     | 2017                     | 2016                     |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 401(k)/403(b)/457(b) plan maximum elective                         | \$22,500                 | \$20,500                 | \$19,500                 | \$19,500                 | \$19,000                 | \$18,500                 | \$18,000                 | \$18,000                 |
| Catch-up contribution limit 401(k)/403(b)/govt. 457(b) [414(v)(2)] | \$7,500                  | \$6,500                  | \$6,500                  | \$6,500                  | \$6,000                  | \$6,000                  | \$6,000                  | \$6,000                  |
| Defined contribution maximum annual addition* [415(c)(1)(A)]       | \$66,000                 | \$61,000                 | \$58,000                 | \$57,000                 | \$56,000                 | \$55,000                 | \$54,000                 | \$53,000                 |
| Qualified plan maximum compensation limit                          | \$330,000                | \$305,000                | \$290,000                | \$285,000                | \$280,000                | \$275,000                | \$270,000                | \$265,000                |
| Defined benefit maximum annual pension[415(b)(1)(A)]               | \$265,000                | \$245,000                | \$230,000                | \$230,000                | \$225,000                | \$220,000                | \$215,000                | \$210,000                |
| Highly compensated employee threshold                              | \$150,000                | \$135,000                | \$130,000                | \$130,000                | \$125,000                | \$120,000                | \$120,000                | \$120,000                |
| Key employee-officer compensation threshold for top-heavy plans    | \$215,000                | \$200,000                | \$185,000                | \$185,000                | \$180,000                | \$175,000                | \$175,000                | \$170,000                |
| Social Security Taxable Wage Base                                  | \$160,200                | \$147,000                | \$142,800                | \$137,700                | \$132,900                | \$128,400                | \$127,200                | \$118,500                |
| 409(o)(1)(C)(ii) ESOP Limits                                       | \$1,330,000<br>\$265,000 | \$1,230,000<br>\$245,000 | \$1,165,000<br>\$230,000 | \$1,150,000<br>\$230,000 | \$1,130,000<br>\$225,000 | \$1,105,000<br>\$220,000 | \$1,080,000<br>\$215,000 | \$1,070,000<br>\$210,000 |

\*limit not applicable to catch-up contributions

### Retirement Resources for You

The USI Consulting Group (USICG) team is happy to assist employers with all retirement plan matters and guidelines, including those discussed here.

**Questions?** Contact your USICG representative, visit our [Contact Us](#) page or reach out to us directly at [information@usicg.com](mailto:information@usicg.com).

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