

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 \$265,000	\$1,230,000 \$245,000	\$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

*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.

Connect with us today | information@usicg.com | 866.633.5283 | usicg.com | [in](#)

Retirement Plan Spotlight is a publication circulated by the USI Consulting Group Regulatory & Compliance Department and 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. The information contained herein is meant for general educational purposes only.

Please note: This information is provided solely for educational purposes and is not to be construed as investment, legal or tax advice. Prior to acting on this information, we recommend that you seek independent advice specific to your situation from a qualified investment/legal/tax professional.

©2022 USI Consulting Group. All rights reserved.

