IRS Announces Cost-of-Living Adjustments Affecting Retirement Plans

The Internal Revenue Service announced cost-of-living adjustments affecting certain dollar limitations for pension plans and other retirement-related limitations for 2021 in Notice 2020-79.

The following chart details 2020 retirement plan dollar limitation cost-of-living adjustments:

Limitation Description	2020	2020
Maximum annual contribution to an individual's defined contribution plan account under IRC Section 415(c)	$57,000 (plus catch-up)	$58,000 (plus catch-up)
Maximum amount of annual compensation that may be taken into account for determining benefits or contributions to retirement plans under IRC Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii)	$285,000	$290,000
Dollar amount for determining maximum account balance in an employee stock ownership plan subject to a 5-year distribution period under IRC Section 409(o)(1)(C)(ii)	$1,150,000	$1,165,000
The minimum compensation amount under IRC Section 408(k)(2)(C) for simplified employee pensions (SEPs)	$600	$650
Wage Base For Social Security Tax	$137,700	$142,800*

* October, 13, 2020 SSA announcement

The following limits remain unadjusted for 2021:

- Maximum annual benefit under a defined benefit plan under IRC Section 415(b)(1)(A) remains unchanged at $230,000.
- Elective contribution limit under 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at $19,500.
- The catch-up contribution limit for employees who are age 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at $6,500.
- Dollar amount used for determining the lengthening of the 5-year distribution period in an employee stock ownership plan under IRC Section 409(o)(1)(C)(ii) remains unchanged at $230,000.
- The limitation concerning the qualified gratuitous transfer of qualified employer securities to an employee stock ownership plan under IRC Section 664(g)(7) remains unchanged at $50,000.
- Dollar limitation used in the definition of "highly compensated employee" under IRC Section 414(q)(1)(B) remains unchanged at $130,000.
- Amount of compensation to be a "key" employee under IRC Section 416(i)(1)(A)(i) remains unchanged at $185,000.
- Dollar limitation under IRC Section 408(p)(2)(E) for salary deferral contributions to SIMPLE retirement accounts remains unchanged at $13,500.
- The limit on annual contributions to an IRA remains unchanged at $6,000.
- The additional catch-up contribution limit to an IRA for individuals age 50 and over remains $1,000.

Please click here for more details on the changes made by IRS Notice 2020-79.

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