**2013 401(k) and Pension Plan Limits**

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| 10/19/2012  | By Stephen Miller, CEBS  |

The U.S. Internal Revenue Service (IRS) on Oct. 18, 2012, [**announced cost-of-living adjustments (COLAs)**](http://www.irs.gov/pub/irs-news/IR-12-077.pdf) affecting dollar limits for defined contribution and defined benefit retirement plans and other retirement-related items. Many plan limits on contributions and benefits will rise because increases in the cost-of-living index met the statutory thresholds that trigger their adjustment. Below are the key changes effective Jan. 1, 2013.**Defined Contribution Plans****• The elective deferral (contribution) limit** for employees who participate in 401(k), 403(b) and most 457 plans, or in the federal government’s Thrift Savings Plan, increases to **$17,500** from $17,000.**• The catch-up contribution limit** for those age 50 and older remains unchanged at **$5,500**. The catch-up contribution may be made beginning Jan. 1, 2013, by participants who will reach age 50 at any time during the year.**• The overall limit for defined contribution plan deferrals** from all sources (employer and employee combined) increases to **$51,000** per participant from $50,000.**• The amount of employee compensation limit** that can be considered in calculating contributions to defined contribution plans increases to **$255,000** from $250,000.**• The limit used in the definition of a key employee** in a top-heavy plan remains unchanged at $**165,000**.**• The limit used in the definition of a highly compensated employee** for[**401(k) nondiscrimination testing**](http://www.shrm.org/hrdisciplines/benefits/Articles/Pages/CMS_017663.aspx)purposes remains unchanged at **$115,000**.

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| **Defined Contribution Plan Limits**For 401(k), 403(b) and most 457 plans, below are the COLA increases for dollar limits on benefits and contributions.  | **2013** | 2012 |
| Maximum elective deferral by employee. | **$17,500** | $17,000 |
| Catch-up contribution (age 50 and older during 2012). | **$5,500** | $5,500 |
| Defined contribution maximum deferral (employer/employee combined). | **$51,000** | $50,000 |
| Employee annual compensation limit for calculating contributions. | **$255,000** | $250,000 |
| Annual compensation of "key employees" in a top-heavy plan. | **$165,000** | $165,000 |
| Annual compensation of "highly compensated employee" in a top-heavy plan. | **$115,000** | $115,000 |

"The Consumer Price Index for all Urban Consumers (CPI-U) is the gauge used to determine if limits increase," Anthony Agbay, president of The Agbay Group, a benefits consultancy, pointed out to *SHRM Online*. "The challenge with the age 50 and over catch-up is the amount is indexed in increments of $500, which is a large percentage of $5,500 (9 %). This means the CPI-U has to increase over 9 % for this limit to be raised. In comparison, for the primary employee deferral limit (known as the section 402(g) limit), the CPI-U only needs to increase by more than 3 % for that limit to increase."**Defined Benefit Plans****• The maximum annual benefit** that can be funded through a defined benefit plan increases to **$205,000** from $200,000.**• For a participant who separated from service before Jan. 1, 2013,** the limit for defined benefit plans is computed by multiplying the participant's compensation limit, as adjusted through 2012, by **1.0170**.**Other Workplace Retirement Plan Limits****• For SIMPLE (savings incentive match plan for employees of small employers) retirement accounts,** the maximum contribution limit is increased to **$12,000** from $11,500; the catch-up contribution limit remains unchanged at **$2,500**.**• For simplified employee pensions (SEPs),** the minimum compensation amount remains the same at **$550**, while the maximum compensation limit increases to **$255,000** from $250,000.**• In an employee stock ownership plan (ESOP),** the maximum account balance in the plan subject to a five-year distribution period increases to **$1,035,000** from $1,015,000, while the dollar amount used to determine the lengthening of the five-year distribution period increases to **$205,000** from $200,000

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| **Non-401(k) Workplace Retirement Plan Limits** | **2013** | 2012 |
| SIMPLE employee deferrals | **$12,000** | $11,500 |
| SIMPLE catch-up deferrals | **$2,500** | $2,500 |
| SEP minimum compensation | **$550** | $550 |
| SEP annual compensation limit | **$255,000** | $250,000 |
| ESOP maximum account balance subject to the five-year distribution period | **$205,000** | $200,000 |
| Social Security wage base | **$113,700** | $110,100 |

**Individual Retirement Accounts****• The deduction for taxpayers** making contributions to a traditional individual retirement account (IRA) is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) **from $59,000 to $69,000**, up from $58,000 to $68,000 in 2012.**• For married couples filing jointly,** in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the AGI phase-out range is **$95,000 to $115,000**, up from $92,000 to $112,000.**• For an IRA contributor who is not covered by a workplace retirement plan** and is married to someone who is covered, the deduction is phased out for couples with AGI from **$178,000 to $188,000**, up from $173,000 to $183,000.**• For a Roth IRA,** the AGI phase-out range for taxpayers making contributionsis **$178,000 to $188,000** for married couples filing jointly, up from $173,000 to $183,000 in 2012. For singles and heads of household, the income phase-out range is **$112,000 to $127,000**, up from $110,000 to $125,000. For a married individual filing a separate return who is covered by a retirement plan at work, the phase-out range remains **$0 to $10,000**.**• The AGI limit for the saver’s credit** (also known as the retirement savings contributions credit) for low-and moderate-income workers is **$59,000** for married couples filing jointly, up from $57,500 in 2012; **$44,250** for heads of household, up from $43,125 ; and **$29,500** for singles and married couples filing separately, up from $28,750. |