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IRS Announces Employee Benefits Limits for 2017

11.2.2016

The Internal Revenue Service has recently announced cost-of-living adjustments applicable to dollar limitations for retirement plans (and other items) for 2017. Many of the retirement plan limitations will change for 2017 because the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. However, other limitations will remain unchanged because the increase in the index did not meet the statutory thresholds that trigger their adjustment.

I. Retirement Plans

Some of the annual limits for 2017 (and the current limits for 2016) are as follows:

2017

2016

Elective Deferral Limit (for Internal Revenue Code (“Code”) Section 401(k), 403(b), 457(b)(2), 457(c), and SARSEP plans) – excluding catch-up contributions

\$18,000

\$18,000

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Elective Deferral Limit for SIMPLE plans

\$ 12,500

\$ 12,500

Catch-up Contribution Limit for Code Section 401(k), 403(b), 457(b) and SARSEP plans

\$ 6,000

\$ 6,000

Catch-up Contribution Limit for SIMPLE plans

\$ 3,000

\$ 3,000

Annual limitation for *defined contribution* plans under Code Section 415

\$ 54,000

\$ 53,000

Annual limitation for *defined benefit* plans under Code Section 415

\$215,000

\$210,000

Maximum compensation limit

\$270,000

\$265,000

Minimum dollar threshold to be considered highly compensated employee ("HCE") based on compensation

\$120,000

\$120,000

Minimum dollar threshold for an officer of the employer to be considered a key employee for top heavy plans.

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\$175,000

\$170,000

Maximum Social Security taxable earnings (OASDI only)

\$127,200

\$118,500

Maximum Medicare taxable earnings (HI only)

No Limit^[1]

No Limit

Minimum compensation amount to be eligible for coverage under SEP

\$ 600

\$ 600

[1] The Medicare tax rate is 1.45% on wages (for employees) and 2.90% on self-employment income (for self-employed individuals). However, the Patient Protection and Affordable Care Act imposes an additional .9% Medicare tax on wages and self-employment income for tax years beginning after December 31, 2012. The additional tax applies to individuals with compensation in excess of certain threshold amounts (\$200,000 for single taxpayers, \$250,000 for married taxpayers filing a joint return, and \$125,000 for married couples filing separate returns). The new Medicare tax rate on wages and self-employment income in excess of the threshold amounts is 2.35% for employees and 3.8% for self-employed individuals.

II. Health Savings Accounts (HSAs)

The new annual HSA (and High Deductible Health Plan (HDHP)) limits for 2017 (and the current limits for 2016) are as follows:

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2017

2016

HSA Contribution Limits:

Self-only

\$ 3,400

\$ 3,350

Family

\$ 6,750

\$ 6,750

Catch-up (for individuals age 55 or older)

\$1,000

\$1,000

HDHP Minimum Deductible:

Self-only

\$1,300

\$1,300

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Family

\$ 2,600

\$ 2,600

HDHP Out-of-Pocket Expense Limit (Deductibles,
co-payments and other amounts, but not premiums) [1]:

Self-only

\$ 6,550

\$ 6,550

Family

\$ 13,100

\$ 13,100

[1] The HDHP out of pocket maximums for HSA/HDHP plans are lower than the Patient Protection and Affordable Care Act ("ACA") out of pocket maximums. For 2017, the ACA's out of pocket maximum is \$7,150 for self-only coverage and \$14,300 for family coverage. Employers offering HSA/HDHP plans will need to ensure they satisfy the lower Internal Revenue Service HDHP out of pocket maximums.

III. Health Flexible Spending Accounts

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The annual limit for 2017 for a health flexible spending account is increased to \$2,600. Presently, for 2016, the limit is \$2,550.

If you have questions regarding the Internal Revenue Service limits or other employee benefits matters, please contact your regular Butzel Long attorney, a member of the Butzel Long Employee Benefits Practice Group, or the author of this e-mail news alert.

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