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2017 Retirement Plan Dollar Limits Mostly Remain Flat—So What Can Employers Do to Increase Retirement Readiness?



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The Internal Revenue Service and the Social Security Administration announced the cost-of-living adjustments affecting limitations for qualified retirement plans and IRAs for 2017. Overall, the limitations remain flat because inflation is low. IRS Notice 2016-62 sets forth the annual dollar limitations effective Jan. 1, 2017, as required under Section 415(d) of the Internal Revenue Code. The Consumer Price Index for all Urban Consumers is the benchmark used to determine the index, and did not have the increases needed to trigger many adjustments for 2017. As a result, some of the 2017 dollar limits will again remain unchanged as noted in the chart below and a few limits will increase.

Most notably, the annual addition limit for defined contribution plans increases to \$54,000. Employees will

be able to continue to defer up to \$18,000 into their qualified defined contribution plans, and an additional \$6,000 for those over the age of 50, for a combined total of \$24,000. Since the deferral limit did not increase above \$18,000, employees will only benefit by the \$1,000 annual addition limit increase if the plan sponsor provides for increased matching or other employer contributions. Highly compensated employees who earn more than \$120,000 and who participate in both qualified and non-qualified plans will have a slightly greater amount of their compensation allocated to the qualified plan with the increase of the compensation limit from \$265,000 to \$270,000.

Given that most participants defer at a default contribution rate between 3% and 6% of salary, the unchanged deferral maximum for qualified plans of \$18,000 and \$6,000 for catch-up contributions for 2017 will not adversely impact the majority of participants. But, with more than 40% of workers estimating that their savings from qualified plans will be their main source of income during retirement, the importance of retirement readiness must be considered. Since qualified plans play such a critical role for workers, plan sponsors should look to ways that will increase employees' retirement readiness.

To that end, there are a number of action steps that employers and plan sponsors can take to increase participation and retirement savings, including:

- Adopting automatic enrollment to increase participation by having participants opt out instead of opt in;
- Expanding automatic enrollment beyond just new hires to periodically enroll nonparticipating existing employees;

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- Adopting auto-escalation to increase saving rates, which is important since most participants who are automatically enrolled leave their deferral rate at the default percentage;

- Simplifying the enrollment process;

- Removing eligibility exclusions for workers like part-timers so that all employees save for retirement;

- Eliminating waiting periods so that employees begin deferring immediately with their first paycheck;

- Increasing matching contributions to incentivize employees to participate and at least defer up to the match threshold;

- Providing hands-on education and online tools to better engage participants; and

- Renegotiating with plan record keepers, administrators and other service providers to reduce plan fees.

IRS RETIREMENT LIMITS	2013	2014	2015	2016	2017
Elective Deferral Limit for 401(k), 403(b) and 457(b) plans	\$17,500	\$17,500	\$18,000	\$18,000	\$18,000
Age 50+ Catch-Up Contribution Limit	\$5,500	\$5,500	\$6,000	\$6,000	\$6,000
Annual Compensation Limit for Qualified Plans under 401(a)(17)	\$255,000	\$260,000	\$265,000	\$265,000	\$270,000
Defined Contribution Plan Limit on Annual Additions	\$51,000	\$52,000	\$53,000	\$53,000	\$54,000
Defined Benefit Plan Maximum Annual Benefit	\$205,000	\$210,000	\$210,000	\$210,000	\$215,000
Threshold for Determining Highly Compensated Employees	\$115,000	\$115,000	\$120,000	\$120,000	\$120,000
IRA Contribution Limit	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500
IRA Age 50+ Catch-up Contribution Limit	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Social Security Taxable Wage Base	\$113,700	\$117,000	\$118,500	\$118,500	\$127,200