

November 1, 2013

IRS Announces New Employee Benefits Limits for 2014

The Internal Revenue Service has recently announced cost-of-living adjustments applicable to dollar limitations for retirement plans (and other items) for 2014. Many of the retirement plan limitations will change for 2014 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 new annual limits for 2014 (and the current limits for 2013) are as follows:

	2014	2013
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	\$17,500	\$17,500
Elective Deferral Limit for SIMPLE plans	\$12,000	\$12,000
Catch-up Contribution Limit for Code Section 401(k), 403(b), 457(b) and SARSEP plans	\$5,500	\$5,500
Catch-up Contribution Limit for SIMPLE plans	\$2,500	\$2,500
Annual limitation for <i>defined contribution</i> plans under Code Section 415	\$52,000	\$51,000
Annual limitation for <i>defined benefit</i> plans under Code Section 415	\$210,000	\$205,000
Maximum compensation limit	\$260,000	\$255,000
Minimum dollar threshold to be considered highly compensated employee (“HCE”) based on compensation	\$115,000	\$115,000
Minimum dollar threshold for an officer of the employer to be considered a key employee for top heavy plans	\$170,000	\$165,000
Maximum Social Security taxable earnings (OASDI only)	\$117,000	\$113,700
Maximum Medicare taxable earnings (HI only)	No Limit¹	No Limit
Minimum compensation amount to be eligible for coverage under SEP	\$550	\$550

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 .09% 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 2014 (and the current limits for 2013) are as follows:

	<u>2014</u>	<u>2013</u>
HSA Contribution Limits:		
Self-only	\$3,300	\$3,250
Family	\$6,550	\$6,450
Catch-up (for individuals age 55 or older)	\$6,550	\$1,000
HDHP Minimum Deductible:		
Self-only	\$1,250	\$1,250
Family	\$2,500	\$2,500
HDHP Out-of-Pocket Expense Limit (Deductibles, co-payments and other amounts, but not premiums):		
Self-only	\$6,350	\$6,250
Family	\$12,700	\$12,500

Plan documents (particularly retirement plan documents) often anticipate cost of living adjustments and do not have to be amended for these adjustments. Nevertheless, administrators of plans should review their documents to reconfirm the documents automatically incorporate the adjustments. If the documents do not contemplate the adjustments, plan documents will need to be amended to remain tax-compliant. Plan administrators should also communicate with their plan service providers (including payroll providers) to ensure the new limits will be used in plan operations beginning in 2014.

If you have questions regarding the new IRS 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.

Thomas L. Shaevsky, Esq.

248 258 7858

shaevsky@butzel.com

Butzel Long Employee Benefits Practice Group

Alexander B. Bragdon

248 258 7856

bragdon@butzel.com

Lynn McGuire

734 213 3261

mcguire@butzel.com

Thomas L. Shaevsky

248 258 7858

shaevsky@butzel.com

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