



# CLIENT ACTION Bulletin

Employee Benefits

## Retirement, Social Security, and Health Benefit Limits for 2016

**SUMMARY** With the release of the September 2015 Consumer Price Index (CPI) by the Bureau of Labor Statistics, the Social Security Administration (SSA) and the IRS have announced the 2016 figures for, respectively, the Social Security program and tax-qualified retirement plan benefits. In most cases, the figures are unchanged from 2015. The 2016 adjusted figures for high-deductible health plans (HDHPs) and health savings accounts (HSAs) included in this *Client Action Bulletin* were released by the IRS earlier this year and are provided here for convenience.

### DISCUSSION Retirement Benefits

	2016	2015
Defined Benefit Plan Dollar Annuity Limit IRC §415(b)(1)(A)	\$210,000	\$210,000
Defined Contribution Plan Combined Limit IRC §415(c)(1)(A)	\$53,000	\$53,000
Defined Contribution Plan Elective Deferral Limit IRC §402(g)(1)	\$18,000	\$18,000
Government/Tax-Exempt Plans' Deferral Limit IRC §457(e)(15)	\$18,000	\$18,000
401(k)/403(b)/457 Plans' "Catch-Up" Limit IRC §414(v)(2)(B)(i)	\$6,000	\$6,000
Annual Compensation Limit IRC §§401(a)(17), 404(l)	\$265,000	\$265,000
Highly Compensated Employee (HCE) Limit IRC §414(q)(1)(B)	\$120,000 (HCEs in 2017)	\$120,000 (HCEs in 2016)
Key Employee/Officer Compensation IRC §416(i)(1)(A)(i)	\$170,000	\$170,000

### Defined Benefit Plan High-3-Year Compensation Limit

For participants who separated from service before 2016, the adjusted high-three-year compensation limitation for defined benefit plans (under IRC §415(b)(1)(B)) is computed by multiplying the participant's 2015 compensation limitation by 1.0011.

### Social Security Program Adjustments

The Social Security Administration announced no cost-of-living adjustment for 2016 benefits.

For 2016, the Social Security taxable wage base will remain at \$118,500. The Social Security Old-Age, Survivors, and Disability Insurance (OASDI) tax rate will be 6.2% on wages up to the \$118,500 wage base, capping 2016 OASDI taxes at \$7,347 assessed on both the employee and the employer.

The Medicare Hospital Insurance (HI) tax rate will remain at 1.45% on all wages. Employers must also withhold the additional 0.90% Medicare tax on wages paid in excess of \$200,000 to employees.

An individual born in 1950 will be eligible to commence unreduced Social Security benefits upon attaining Social Security normal retirement age of 66 in 2016. Individuals born earlier may have a lower normal retirement age, and those born later may have a higher normal retirement age, with a maximum age of 67 for those born in 1960 and later. Other adjusted figures from the SSA include:

- The maximum amount an individual may earn in 2016 without a reduction in Social Security benefits is \$3,490/month (\$41,880 annually) for recipients who have attained Social Security normal retirement age; and \$1,310/month (\$15,720/annually) for recipients who have not.
- The “bend points” – the dollar amounts used to determine beneficiaries’ Social Security Primary Insurance Amount (PIA) based on their Average Index Monthly Earnings (AIME) – for 2016 will remain \$856 and \$5,157. Thus, the Social Security monthly PIA formula will be 90% of the first \$856 of AIME, plus 32% of the AIME over \$856 and through \$5,157, plus 15% of the AIME over \$5,157.
- The “old law” contribution and benefit base will remain at \$88,200. (The Pension Benefit Guaranty Corporation uses this figure to calculate the amount of benefit guaranteed in 2016, which will remain at \$5,011.36/month at age 65.)
- The amount of earnings required for a quarter of coverage remains \$1,260 in 2016.

#### **Health Benefits**

The maximum annual contribution for HSAs in 2016 will remain unchanged at \$3,350 for an individual with self-only coverage and will increase to \$6,750 for an individual with family coverage. In addition, persons age 55 or older may make catchup contributions of \$1,000 (unchanged for 2016).

For 2016, HSA-eligible HDHPs must have an annual deductible of at least \$1,300 for self-only coverage (\$2,600 for family coverage), no increase from the 2015 amounts. The HDHP’s annual out-of-pocket maximums may not exceed \$6,550 for self-only coverage and \$13,100 for family coverage, an increase from the 2015 amounts of \$6,450 and \$12,900, respectively.

**ACTION** Although most of the employee benefit plan limits for 2016 are unchanged from 2015, plan sponsors should verify that their administrative and payroll systems reflect the appropriate figures. Communications that specify the various retirement plan limits and other benefit program changes should be reviewed for accuracy before materials are given to participants. Retirement plans that are coordinated with Social Security benefits should also be reviewed for accuracy.

For additional information about the 2016 cost-of-living adjustments for retirement plans, Social Security benefits, and HSAs and HDHPs, please contact your Milliman consultant.