

# CLIENT ACTION Bulletin

Employee Benefits

## COLAs for Retirement, Social Security, and Health Benefits for 2017

**SUMMARY** With the release of the September 2016 Consumer Price Index (CPI) by the Bureau of Labor Statistics, the Social Security Administration (SSA) and the IRS have announced cost-of-living adjusted figures for Social Security and retirement plan benefits, respectively, for 2017. The 2017 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

	2017	2016
Defined Benefit Plan Dollar Annuity Limit IRC §415(b)(1)(A)	\$215,000	\$210,000
Defined Contribution Plan Combined Limit IRC §415(c)(1)(A)	\$54,000	\$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)	\$270,000	\$265,000
Highly Compensated Employee (HCE) Limit IRC §414(q)(1)(B)	\$120,000 (HCEs in 2018)	\$120,000 (HCEs in 2017)
Key Employee/Officer Compensation IRC §416(i)(1)(A)(i)	\$175,000	\$170,000

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

For participants who separated from service before 2017, the adjusted high-three-year compensation limitation for defined benefit plans (under IRC §415(b)(1)(B)) is computed by multiplying the participant's 2016 compensation limitation by 1.0112.

#### Social Security Program Adjustments

The Social Security Administration announced a 0.3% adjustment for 2017 benefits.

For 2017, the Social Security taxable wage base will increase to \$127,200, up from \$118,500 in 2016. The Social Security Old-Age, Survivors, and Disability Insurance (OASDI) tax rate remains at 6.2% on wages up to the \$127,200 wage base, capping 2017 OASDI taxes at \$7,886 assessed equally on both the employee and the employer.

The Medicare Hospital Insurance (HI) tax rate will remain at 1.45% on all wages, with only the employee portion of the Medicare HI tax remaining subject to an additional 0.9% tax on wages exceeding \$200,000. (The \$200,000 threshold is not subject to adjustments for inflation.)

An individual who attains Social Security normal retirement age 66 in 2017 (born in 1951) will be eligible to commence unreduced Social Security benefits. Most individuals born in earlier years have a lower normal retirement age, and those born in later years will have a higher normal retirement age, with a maximum age of 67 for those born in 1960 or later. Other 2017 adjusted figures from the SSA include:

- The maximum amount that individuals may earn without a reduction in their 2017 Social Security benefits is \$3,740/month (\$44,880 annually) if they are receiving or will commence Social Security benefits in 2017 *and* have attained Social Security normal retirement age by 2017.
- The maximum amount that individuals may earn without a reduction is \$1,410/month (\$16,920 annually) if they are receiving or will commence Social Security benefits in 2017 *and* have not attained Social Security normal retirement age by the end of 2017.
- The “bend points” – the dollar amounts in the Social Security Primary Insurance Amount (PIA) formula that is used to determine individual beneficiaries’ Average Index Monthly Earnings (AIME) – for 2017 will be \$885 and \$5,336. Thus, the Social Security monthly PIA formula will be 90% of the first \$885 of AIME, plus 32% of the AIME over \$885 and through \$5,336, plus 15% of the AIME over \$5,336.
- The “old law” contribution and benefit base, which is used to calculate the PBGC guaranteed amount, will be \$94,500, up from \$88,200 in 2016.
- The amount of earnings required for a quarter of coverage will be \$1,300.
- The National Average Wage Index for 2015 is \$48,098.63.

### Health Benefits

The maximum annual contribution for HSAs in 2017 will increase to \$3,400 (from \$3,350 in 2016) for an individual with self-only coverage, and will remain at \$6,750 for an individual with family coverage. In addition, persons age 55 or older may make a catchup contribution of \$1,000 (which is set by law and not subject to adjustments for inflation) for 2017.

For 2017, 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 2016 amounts. The HDHP’s annual out-of-pocket maximums may not exceed \$6,550 for self-only coverage and \$13,100 for family coverage, no increase from the 2016 amounts.

**ACTION** Because some of the employee benefit plan limits for 2017 have changed from 2016, plan sponsors should verify that their administrative and payroll systems reflect the appropriate limits. 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 2017 cost-of-living adjustments for retirement plans, Social Security benefits, and HSAs and HDHPs, please contact your Milliman consultant.