

  
**TANNER**  
& ASSOCIATES  
Retirement Success - *PLAN* On It

RE: Cost of living adjustments for 2016, Defined Contribution plans...

Dear Trustee:

The IRS recently announced the cost-of-living adjustments to certain dollar limits on qualified plans and related provisions that affect plans.

<u>2015</u>	<u>2016</u>	
\$18,000	\$18,000	The limitation on the exclusion for elective deferrals under Code Section 402(g)(1) (i.e., the <b>limit on cumulative 401(k), 403(b), Roth elective plan contributions</b> )
\$6,000	\$6,000	The special <b>catch-up contribution</b> available for individuals who are age 50 and up on Dec 31, 2015.
\$53,000	\$53,000	The defined contribution plan limitation under Code Section 415(c)(1)(A) ( <b>Combined total of all contributions, excluding catch-up but including both employee deferral and all employer contributions.</b> )
\$210,000	\$210,000	The defined benefit annual limitation under Code Section 415(b)(1)(A).
\$265,000	\$265,000	The <b>annual compensation limit</b> for computing certain benefits and contributions ( <b>Maximum compensation to be taken into account when computing all employer contributions such as matching, safe harbor and/or profit sharing.</b> )
\$118,500	\$118,500	The <b>taxable wage base</b> . (For computing Social Security and certain other benefits.)
\$120,000	\$120,000	<b>Highly compensated employee determination</b> <sup>η</sup> (see below)

**Definition of a Highly Compensated Employee** under Code Section 414(q) is defined as any employee who

- is/was a 5% owner of the company at any time during the current or preceding year, OR
- earned more than \$120,000 in the *preceding*<sup>η</sup> year and, if elected by the Employer, was also in the top 20% group.

<sup>η</sup> **Applied example FYI:** The compensation used to determine HCE status, applies to 2015 compensation used for the HCE determination in a 2016 calendar plan year. For the 2016 testing plan year, the \$120,000 limit as to compensation earned in 2015 applies. The \$120,000 amount also applies in determining HCE status for a fiscal look-back plan year which begins in 2016. Therefore, for a plan with a June 30 fiscal plan year, apply \$120,000 for the testing plan year beginning July 1, 2015 (look-back year beginning in 2014) and apply \$120,000 for the testing plan year beginning July 1, 2016 (look-back-year beginning in 2015).

Sincerely,  
R. BRUCE TANNER & ASSOCIATES, INC.

