

CLIENT ALERT

Key Dollar Limits for Benefits and Executive Compensation to Remain Mostly the Same for 2021

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On October 26, 2020, the Internal Revenue Service announced its 2021 cost-of-living adjustments to various employee benefit plan dollar limits. While these limits directly affect tax-qualified retirement plans, certain dollar limits and thresholds imposed outside of the tax-qualified retirement plan context, such as nonqualified deferred compensation subject to Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), also will be affected. Most limitations on benefits and contributions for tax-qualified retirement plans remain unchanged for 2021, although several will change because the increase in the cost-of-living index met the statutory thresholds that would trigger their adjustment.

Attached to this alert is a table comparing the 2021 dollar limits and thresholds that are most relevant to retirement and deferred compensation plans to those in 2020 and 2019. The most noteworthy are the following:

- The elective deferral (contribution) limit for employees who participate in 401(k) plans (other than SIMPLE plans) remains unchanged at \$19,500. The catch-up contribution limit for those aged 50 and over also remains unchanged at \$6,500.

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- The limit on annual benefits under a defined benefit plan remains unchanged at \$230,000. This limit may also affect nonqualified deferred compensation plans that provide defined benefits in excess of a tax-qualified defined benefit plan.
- The annual allocation limit for defined contribution plans is increased from \$57,000 to \$58,000.
- The maximum amount of annual compensation that can be taken into account under a qualified retirement plan is increased from \$285,000 to \$290,000. This limit may also affect nonqualified deferred compensation plans that provide benefits in excess of this annual dollar limit. In addition, under the above limit, the amount of severance pay that can be exempt from Code Section 409A under a “safe harbor” separation pay arrangement (e.g., a severance arrangement that pays severance pay only upon an involuntary separation from service, also referred to as the “two-times exception”¹) is increased from \$570,000 to \$580,000.
- The dollar limit used in the definition of “highly compensated employee” remains unchanged at \$130,000.
- The dollar limit relating to the definition of “key employee” in a top-heavy plan remains unchanged at \$185,000.

¹ An involuntary severance pay plan that, among other things, limits benefits so as not to exceed the lesser of two times (i) the service provider’s annualized compensation or (ii) the maximum amount of annual compensation that can be taken into account under a qualified retirement plan, and that requires payment no later than the last day of the service provider’s second taxable year following the year of the service provider’s separation, is not treated as deferred compensation that is subject to Code Section 409A.

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IRS Cost-of-Living Adjustments

	2021	2020	2019
401(k), 403(b), Profit-Sharing Plans, Pension Plans, Etc.			
Maximum Annual Compensation	\$290,000	\$285,000	\$280,000
Elective Deferrals	\$19,500	\$19,500	\$19,000
Catch-Up Contributions	\$6,500	\$6,500	\$6,000
Annual Defined Contribution Limit	\$58,000	\$57,000	\$56,000
Annual Defined Benefit Limit	\$230,000	\$230,000	\$225,000
IRAs			
IRA Contribution Limit	\$6,000	\$6,000	\$6,000
IRA Catch-Up Contributions	\$1,000	\$1,000	\$1,000
IRA AGI Deduction Phase-Out Starting At			
Joint Return	\$105,000	\$104,000	\$103,000
Single or Head of Household	\$66,000	\$65,000	\$64,000
SEPs			
SEP Minimum Compensation	\$650	\$600	\$600
SEP Maximum Compensation	\$290,000	\$285,000	\$280,000
SIMPLE Plans			
SIMPLE Maximum Contributions	\$13,500	\$13,500	\$13,000
Catch-Up Contributions	\$3,000	\$3,000	\$3,000
Section 409A Nonqualified Deferred Compensation			
Specified Employee	\$185,000	\$185,000	\$180,000
Maximum Severance Pay under "Two-Times Exception"	\$580,000	\$570,000	\$560,000
Limit on Aggregate General Post-Termination Payments Exempt from Code Section 409A	\$19,500	\$19,500	\$19,000
Discretionary Cash-Out of Deferred Compensation	\$19,500	\$19,500	\$19,000
Other			
Highly Compensated Employee Threshold	\$130,000	\$130,000	\$125,000
Key Employee	\$185,000	\$185,000	\$180,000
Code Section 457 Elective Deferrals	\$19,500	\$19,500	\$19,000
Social Security Taxable Wage Base	\$142,800	\$137,700	\$132,900