

CLIENT MEMORANDUM

Key 2015 Dollar Limits for Benefits and Executive Compensation to Increase

October 24, 2014

AUTHORS

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On October 23, 2014, the Internal Revenue Service announced its 2015 cost-of-living adjustments to various employee benefit plan dollar limits. While these changes 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. Other limitations on benefits and contributions for tax-qualified retirement plans will remain unchanged.

Attached to this memorandum is a table comparing the 2015 dollar limits and thresholds that are most relevant to retirement and deferred compensation plans to those in 2014 and 2013. The most noteworthy are:

- The elective deferral (contribution) limit for employees who participate in 401(k) plans is increased from \$17,500 to \$18,000. In addition, the catch-up contribution limit for those aged 50 and over is increased from \$5,500 to \$6,000.
- The maximum limit on the annual benefits under a defined benefit plan remains unchanged at \$210,000. This limit may also affect nonqualified deferred compensation plans that provide defined benefits in excess of a tax-qualified defined benefit plan.

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- The annual allocation limit for defined contribution plans is increased from \$52,000 to \$53,000.
- The maximum amount of annual compensation that can be taken into account under a qualified retirement plan is increased from \$260,000 to \$265,000. This increase may also affect nonqualified deferred compensation plans. Most directly, many nonqualified deferred compensation plans provide benefits in excess of this annual dollar limit. In addition, the increased limit also raises 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) to \$530,000.
- The dollar limit used in the definition of “highly compensated employee” is increased from \$115,000 to \$120,000.
- The dollar limitation relating to the definition of “key employee” in a top-heavy plan remains unchanged at \$170,000.

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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 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

	2015	2014	2013
401(k), 403(b), Profit-Sharing Plans, Pension Plans, etc.			
Maximum Annual Compensation	\$265,000	\$260,000	\$255,000
Elective Deferrals	\$18,000	\$17,500	\$17,500
Catch-Up Contributions	\$6,000	\$5,500	\$5,500
Annual Defined Contribution Limits	\$53,000	\$52,000	\$51,000
Annual Defined Benefit Limits	\$210,000	\$210,000	\$205,000
IRAs			
IRA Contribution Limit	\$5,500	\$5,500	\$5,500
IRA Catch-Up Contributions	\$1,000	\$1,000	\$1,000
IRA AGI Deduction Phase-Out Starting At			
Joint Return	\$98,000	\$96,000	\$95,000
Single or Head of Household	\$61,000	\$60,000	\$59,000
SEPs			
SEP Minimum Compensation	\$600	\$550	\$550
SEP Maximum Compensation	\$265,000	\$260,000	\$255,000
SIMPLE Plans			
SIMPLE Maximum Contributions	\$12,500	\$12,000	\$12,000
Catch-Up Contributions	\$3,000	\$2,500	\$2,500
Section 409A Nonqualified Deferred Compensation			
Specified Employee	\$170,000	\$170,000	\$165,000
Maximum Severance Pay under "Two-Times Exception"	\$530,000	\$520,000	\$510,000
Limit on Aggregate General Post-Termination Payments Exempt from Code Section 409A	\$18,000	\$17,500	\$17,500
Discretionary Cash-Out of Deferred Compensation	\$18,000	\$17,500	\$17,500
Other			
Highly Compensated Employee Threshold	\$120,000	\$115,000	\$115,000
Key Employee	\$170,000	\$170,000	\$165,000
Code Section 457 Elective Deferrals	\$18,000	\$17,500	\$17,500
Social Security Taxable Wage Base	\$118,500	\$117,000	\$113,700