BENEFITS ADVANTAGE

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For employers sponsoring retirement plans

2017 No. 4

2018 retirement plan limits

It's official: With the release of Notice 2017-64, the IRS has increased the contribution limits for many retirement plans. For the first time in three years, the 401(k) and 403(b) deferral contribution limit has been raised, along with some other key limitations.

Each fall, the IRS announces cost-of-living adjustments for the upcoming calendar year. These dollar-based limits define the maximum contribution amounts that employees and employers can contribute to retirement plans. The IRS also releases certain thresholds—such as the highly compensated employee income level—that are critical for nondiscrimination testing and plan operations.

Because of their importance, please review the new limits each year and evaluate any changes needed in your retirement program.

Key limits for 2018

Deferral Contribution Limit – The amount that employees can save from their own paychecks into a 401(k), 403(b), or 457(b) retirement plan has increased by $500 to $18,500. The catch-up contribution amount for participants who are age 50 or older remains unchanged at $6,000.

401(k)/403(b) Annual Additions Limit – The maximum 2018 contribution to an employee's account in a 401(k) or 403(b) plan has increased by $1,000 to $55,000. This includes all deferrals, employer contributions, and forfeiture allocations.

Defined Benefit Annual Benefit Limit – The maximum 2018 benefit limit for an employee's account in a defined benefit/cash balance plan has increased by $5,000 to $220,000.

Highly Compensated Employee (HCE) Threshold – The threshold that defines non-owner employees as highly compensated (above the threshold) or non-highly compensated (below) remains the same for nondiscrimination testing at $120,000. This threshold

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usually changes at the same time that deferral limits increase. As wages grow while the HCE threshold stays the same, you may see more employees shift into highly compensated employee status for plan purposes.

When to use the new limits

These limits apply as of January 1, 2018. Under your plan's administrative policy, participants may submit new deferral elections to take advantage of increased contribution limits.

Employer Retirement Plan Limits	2018	2017	2016
Deferral limit for 401(k), 403(b), and 457(b) plans – 402(g) The amount employees can contribute from their own pay into a plan within the calendar year.	$18,500	$18,000	$18,000
Deferral catch-up limit for 401(k), 403(b), and governmental 457(b) plans – 414(v) Employees who are 50 or older can contribute additional deferrals from their own pay into a plan within the calendar year.	$6,000	$6,000	$6,000
SIMPLE 401(k) deferral limit – 408(p) This is the amount employees can contribute from their own pay into a SIMPLE 401(k) within the calendar year.	$12,500	$12,500	$12,500
SIMPLE 401(k) deferral catch-up limit Additional amount employees who are 50 or older can contribute from their own pay into a SIMPLE 401(k) within the calendar year.	$3,000	$3,000	$3,000
Defined contribution annual additions limit – 415(c)(1)(A) Total contribution limit within a limitation year (usually the plan year) for an employee in a 401(k), profit sharing, money purchase, or 403(b) plan, including deferrals (before catch-up) and all employer contributions, including forfeitures. For non-calendar limitation periods, use the limit in effect at the end of the period.	$55,000	$54,000	$53,000
Defined benefit annual benefit limit – 415(b) Total contribution limit for an employee within a limitation year (usually the plan year). For non-calendar limitation periods, use the limit in effect at the end of the period.	$220,000	$215,000	$210,000
Compensation Cap – 401(a)(17) Maximum compensation that can be considered for plan allocation and contribution purposes in 401(k), profit sharing, money purchase, defined benefit, SEP IRA, SAR/SEP IRA, or 403(b) plans. For non-calendar plan years, use the limit in effect at the beginning of the plan year.	$275,000	$270,000	$265,000
Highly Compensated Employee threshold Employees who earn income above this threshold are highly compensated employees (HCEs) under the compensation test.	$120,000	$120,000	$120,000
Key employee officer threshold An officer of the employer earning income above this threshold is a key employee for the purposes of top-heavy status determination.	$175,000	$175,000	$170,000
Social Security taxable wage base Some employers use a Social-Security-integrated profit sharing formula (also called a permitted disparity formula). This formula uses the Social Security taxable wage base for the year as a calculation benchmark.	$128,400	$127,200	$118,500

Understanding disaster relief for retirement plans

Disaster relief

Recent U.S. disasters have affected large areas, causing widespread damage to property and disrupting many lives. The last thing you may think about is how the devastation may affect your retirement plans. But when disaster strikes, governmental agencies spring into action, providing not only essential supplies and services, but also giving relief to affected employer plans and individuals. The Federal Emergency Management Agency (FEMA), the Internal Revenue Service (IRS), and the Department of Labor (DOL) all play a role in this important process. Let's take a look at how this disaster-relief process works.

Declaring a federal disaster

When faced with a disaster—think wildfires and hurricanes—state and local government agencies typically respond first. If state and local agency resources are inadequate for the severity and magnitude of the disaster, governors may request assistance through FEMA under a law known as **The Stafford Act**, which lays out the process for disaster declaration and federal assistance. The president will then review the request, along with a preliminary damage assessment from FEMA, and decide whether to issue a disaster declaration. If the president declares a disaster, multiple federal assistance programs become available to those affected, and FEMA becomes the chief governmental body in charge of disaster management. Using its own experts and local reports, FEMA determines the disaster area and announces the affected counties on its **website**. This typically triggers relief actions taken by other agencies, such as the IRS and DOL.

Disaster occurs; state governor requests relief

↓

President declares disaster; FEMA examines, defines disaster area

↓

Other government agencies release guidance as they deem appropriate

Retirement plan relief

The IRS has created pre-drafted disaster relief guidance (**Internal Revenue Code Section 7508A**, **Treasury Regulation 301.7508A-1**, and **Revenue Procedure 2007-56**) that is linked to tax-related deadlines (such as Form 5500 filing and deductibility of employer plan contributions). The IRS will typically release an announcement stating that this guidance is now in effect as of a specified date for those with businesses or principal residences within the FEMA disaster area. The IRS may release additional relief, which may address such items as qualified plan loans and hardship distributions. Other agencies, such as the DOL and the Pension Benefit Guarantee Corporation (PBGC) don't have pre-drafted relief guidance, and so will release disaster-specific guidance. But even this tailored guidance is often similarly worded for all disaster responses. In more serious circumstances, Congress may provide additional legislative relief.

Recent disasters

Recent natural disasters have affected the United States—including Hurricanes Harvey, Irma, and Maria, along with California wildfires—and government agencies have provided relief. Below is a brief summary of some of this relief.

Tax deadline extensions

If you live in or have a business in one of the following disaster areas, certain deadlines falling on or after the dates listed below are **extended to January 31, 2018:**

Disaster	Relief Area	Relief Start Date
Hurricane Harvey	Texas	August 23, 2017
Tropical Storm Harvey	Louisiana	August 27, 2017
Hurricane Irma	Florida (including Seminole Tribe of Florida)	September 4, 2017
Hurricane Irma	U.S. Virgin Islands and Puerto Rico	September 5, 2017
Hurricane Irma	South Carolina	September 6, 2017
Hurricane Irma	Georgia	September 7, 2017
Hurricane Maria	U.S. Virgin Islands	September 16, 2017
Hurricane Maria	Puerto Rico	September 17, 2017
Wildfires	California	October 8, 2017

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Additional IRS relief

The IRS has also released guidance providing relief for those taking hardship distributions or loans because of the recent disasters. You may immediately allow for either a hardship distribution or loan—even if they aren't currently allowed under your plan—if you properly amend your document by the end of the 2018 plan year.

Congressional action

Congress has also responded to recent disasters. Under the **Disaster Tax Relief and Airport and Airway Extension Act of 2017** (the Act), employees affected by Hurricanes Harvey, Irma, and Maria may take qualified hurricane distributions. To be qualified, an employee must have their principal residence in a hurricane disaster area and must have suffered an economic loss as a result. The distributions aren't subject to withholding or penalty, are limited to $100,000, and may be repaid as a rollover within three years. To allow plan participants take advantage of the relief under the Act, you must amend your plan by the last day of the 2019 plan year.

Please note that this isn't a comprehensive list of affected actions. Please contact your plan's consultant with specific questions. ■

Compliance Reminders

January 2018

15 Minimum funding requirements for defined benefit, money purchase, and target benefit plan years ended April 30, 2017, must be met by January 15 in order to avoid excise taxes. An electronic transfer must be completed or a check mailed by this date.

15 Retirement plan employer contributions are due in order to be deducted on employer tax returns due to be filed January 15, 2018.

15 Form 5500 Series/8955-SSA – Forms that are on extension are due for the plan year ended March 31, 2017.

31 Form 5500 Series/8955-SSA – Forms are due for the plan year ended June 30, 2017, that aren't on extension.

February 2018

15 Minimum funding requirements for defined benefit, money purchase, and target benefit pension plan years ended May 31, 2017, must be met by February 15 to avoid excise taxes. An electronic transfer must be completed or a check mailed by this date.

15 Retirement plan employer contributions are due to be deducted on employer tax returns due to be filed February 15, 2018.

15 Form 5500 Series/8955-SSA – Forms that are on extension are due for the plan year ending April 30, 2017.

28 Form 5500 Series/8955-SSA – Forms are due for the plan year ending July 31, 2017, that aren't on extension.

28 Form 1096/1099R (paper forms, if allowed) are due to the IRS for the plan year 2017.

March 2018

15 Minimum funding requirements for defined benefit, money purchase, and target benefit pension plan years ended June 30, 2017, must be met by March 15 to avoid excise taxes. An electronic transfer must be completed or a check mailed by this date.

15 Retirement plan employer contributions are due to be deducted on employer tax returns due to be filed March 15, 2018.

15 Form 5500 Series/8955-SSA – Forms that are on extension are due for the plan year ending May 31, 2017.

15 Calendar year 401(k) plans must process corrective distributions for failed 2017 nondiscrimination tests to avoid a 10% excise tax. (Certain automatic enrollment plans have until June 30.)

31 Deadline for calendar year-end, defined benefit pension plans to prepare the funding adequacy related AFTAP calculation to avoid a presumed 10% funding adjustment.

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April 2018

1 Required minimum distributions for first time qualifying participants in 2017 (both rank and file and more than 5% owners).

2 Form 5500 Series/8955-SSA – Forms are due for the plan year ending August 31, 2017, that aren't on extension.

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