

update

Compliance News for Plan Sponsors

October 27, 2015

IRS Dollar Limits and Most Social Security Figures Will Not Increase for 2016, but PBGC Premiums Will Increase

This *Update* reports indexed Internal Revenue Service (IRS) and Social Security figures for 2016 that are of interest to retirement plan sponsors. It also includes the 2016 Pension Benefit Guaranty Corporation (PBGC) premium rates and the expected maximum guarantee.

IRS Retirement Plan Limits

The 2016 IRS dollar limits for qualified plans and other tax-favored retirement plans are determined using the Consumer Price Index (CPI) data released on October 15, 2015. According to the Bureau of Labor Statistics, the CPI for All Urban Consumers (CPI-U) over the 12 months that ended September 30, 2015, was “essentially unchanged.” No increase in the CPI-U means that the IRS dollar limits will not increase for 2016. The [press release](#) is on the IRS website. The table below compares some of the 2016 limits to those limits for 2015.



Retirement Compliance News Highlights:

- IRS retirement plan limits will not increase for 2016.
- Social Security benefits will not increase for 2016.
- PBGC premiums will increase, but the guarantee limit is not expected to change.

NEW! On October 28, 2015, the PBGC [announced](#) that the annual maximum guaranteed benefit for a 65-year-old retiree in a single-employer plan will be unchanged for 2016: \$60,136.

| IRS Retirement Plan Limits | 2015 | 2016 |
|---|--------------------|--------------------|
| Maximum §415(b) Annual Payout at Age 62 from a Defined Benefit Plan ¹ | \$210,000 | Unchanged |
| Maximum §415(c) Annual Addition to a Defined Contribution Plan Account | 53,000 | Unchanged |
| Annual Elective §401(k), §403(b) and §457(b) Deferral Limit | 18,000 | Unchanged |
| Annual §401(k) and §403(b) Catch-Up Limit (Age 50 and Older) | 6,000 | Unchanged |
| Maximum §401(a)(17) Annual Compensation Amount Considered for Qualified Plans and §403(b) Plans | 265,000 | Unchanged |
| Annual §414(q) Compensation Threshold to Identify Highly Compensated Employees | 120,000 | Unchanged |
| Annual §416 Top-Heavy Compensation Threshold to Identify Key Employees | 170,000 | Unchanged |
| Cost-of-Living Adjustment (COLA) Factor for the §415(b) 100%-of-Pay Limit | 1.78% ² | 0.11% ³ |

¹ There are late-retirement adjustments for benefits starting after age 65.

² The 2015 factor was for participants who separated from service before 1/1/15.

³ The 2016 factor is for participants who separate from service before 1/1/16.

Social Security Benefits

Social Security benefits increase automatically if inflation, as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), increases from the third quarter of the last year to the third quarter of the current year. Because there was no increase in the CPI-W from the third quarter of 2014 to the third quarter of 2015, there will be no COLA for 2016. The Social Security wage base and earnings test will also not change for 2016. A [press release](#) on this news and a [fact sheet](#) on 2016 Social Security figures are on the Social Security Administration (SSA) website. The table below shows which 2016 figures will differ from 2015 figures and which will be unchanged.

| Social Security Benefit Tests and Limits | 2015 | 2016 |
|---|---------------------------|---------------------------|
| Wage Base for Social Security Tax ¹ | \$118,500 | Unchanged |
| COLA Increase | 1.7% | None |
| Social Security National Average Wage Index ² | \$44,888.16 (for 2013) | \$46,481.52 (for 2014) |
| Primary Insurance Amount (PIA) Formula: ³ | | |
| a) First Bend Point | \$826 | \$856 |
| b) Second Bend Point | \$4,980 | \$5,157 |
| Maximum Social Security Benefit at Social Security Normal Retirement Age (SSNRA) ⁴ | \$2,663/Month | \$2,639/Month |
| Earnings Test — Early Retirement (Age 62) (Amount that Can Be Earned before Benefits Are Cut) ⁵ | \$15,720/Year | Unchanged |

¹ There is no wage base limit for Medicare.

² This amount is not tied to the CPI-W, but rather to earnings as reported to the SSA. The [2014 average \(which is relevant for 2016\) and background](#) can be found on the SSA website.

³ PIA formula "bend points" are updated each year to reflect changes in the National Average Wage Index. The [2016 bend points](#) can be found on the SSA website.

⁴ The maximum Social Security benefit at SSNRA is not tied to the CPI. It is based on the PIA formula (reflecting updated bend points) where a worker's earnings are at the maximum taxable amount for his or her career. For workers born in 1943-1954, the SSNRA is age 66. [Information on how SSNRA varies by birth year](#) is on the SSA website. **A decrease in full maximum benefits, as will happen in 2016, occurs when there is no COLA, but there is an increase in the national average wage index.**

⁵ In the year of attaining SSNRA, the early retirement earnings test is higher. In 2016, it will be the same as in 2015: \$41,880/year (\$3,490/month). After attaining SSNRA, individuals can receive their full benefits regardless of how much they earn.

PBGC Premiums and Guarantee Limit

The Bipartisan Budget Act of 2015 (2015 Budget Act) set the flat-rate, per-participant premium for single-employer plans at \$64 for 2016, up from \$57 for 2015.* The 2015 Budget Act increased the variable-rate premium (VRP) per \$1,000 of unfunded vested benefits in single-employer plans to at least \$29 for 2016 *subject to indexing*, up from \$24 for 2015.** On October 26, 2015, the PBGC updated its "[Premium Rates](#)" webpage

* Multiemployer plan premiums were not affected by that law. At the time this *Update* was published, the PBGC had not yet released the premium increases for 2016. The flat-rate, per-participant premium for multiemployer plans will be \$27 for 2016, up from the \$26 premium for 2015, which was set by the Multiemployer Pension Reform Act of 2014.

** Under the 2015 Budget Act, the stated dollar amount was the total of the 2014 premium plus a flat dollar amount of \$10 for 2015, to be added after the 2014 premium amount was indexed.

to show premium rates for 2016. Indexing will change the VRP for 2016 to \$30 per \$1,000 of unfunded vested benefits. The per-participant cap on the VRP will increase to \$500 for 2016, up from \$418 for 2015.

At the time this *Update* was published, the PBGC had not yet released the monthly maximum guarantee for participants in single-employer pension plans that terminate during 2016.* Sibson Consulting estimates the guarantee will not change from 2015: \$5,011 per month (\$60,136.32 annually) at age 65.**

*** There is no estimated increase in the monthly maximum guarantee for 2016 because increases are based on increases in the "[old law Social Security wage base](#)," but the base for 2016 will be unchanged from 2015 (\$88,200) because there is no COLA increase for December 2015. (The PBGC's multiemployer guarantee remains unchanged because it is not indexed. There is no dollar limit on the monthly benefit payable under the multiemployer program, only a limit on the benefit rate used to calculate the monthly benefit. The maximum monthly PBGC guarantee is \$35.75 per year of service, which means a participant with 30 years of service would receive, at most, a benefit of \$1,072.50 per month. For additional information, see the [multiemployer benefit guarantees](#) page of the PBGC website.)

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