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Benefits**Benefit Plans: 2014 COLAs****Legal Update**

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By Compensation Planning & Employee Benefits Group

The Internal Revenue Service has announced the 2014 cost-of-living adjustments (COLAs) for retirement plans. Most of the limits related to retirement plans are increased.

- **Annual compensation limit.** The compensation limit for calculating benefits and contributions, for general and 401(k) discrimination testing, and for determining tax deductions increases from \$255,000 in 2013 to **\$260,000** for plan years beginning in 2014.
- **Elective deferrals (401(k)/Roth).** The calendar year elective deferral contribution limit remains unchanged at **\$17,500** in calendar year 2014.
- **Catch-up contributions.** The calendar year dollar limitation for catch-up elective deferral contributions for individuals who, in 2014, are age 50 or above remains unchanged at **\$5,500** in calendar year 2014.
- **Highly compensated employee.** For plan years ending in 2014, a “highly compensated employee” is one who (a) was a more-than-5 percent owner during the year or the preceding year, or (b) for the preceding year (i) had compensation in excess of **\$115,000** (remains unchanged at **\$115,000** when the “preceding year” is 2014) and (ii) if the employer elects for the plan year, was in the top-paid group of employees. (The top-paid group is the top 20 percent of the employees based on compensation.)
- **Defined contribution plans.** The annual dollar limitation on additions to defined contribution plans increases to **\$52,000** for plan limitation years ending in 2014. In 2013, the defined contribution plan dollar limitation was \$51,000.
- **Defined benefit plans.** For plan limitation years ending in 2014, the annual dollar benefit limitation under a defined benefit plan increases from \$205,000 in 2013 to **\$210,000** in 2014. For participants who separated from service before January 1, 2014, the 100 percent of average high-three-years’ compensation limit is computed by multiplying the participant’s compensation limitation, as adjusted through 2013, by 1.0155.
- **ESOP five-year distribution period.** The dollar amount used in determining the maximum account balance in an employee stock ownership plan subject to a

five-year distribution period increases to **\$1,050,000** in 2014 (from \$1,035,000 in 2013), while the dollar amount used to determine the lengthening of the five-year distribution period increases to **\$210,000** (from \$205,000 in 2013).

- **Key employee in top-heavy plan.** In defining who is a key employee in a top-heavy plan, for plan years ending in 2014, the compensation threshold for an officer increases to **\$170,000** (from \$165,000 in 2013).
- **Social security taxable wage base.** The social security taxable wage base for 2014 (applicable to integrated plans with plan years beginning in 2014) increases to **\$117,000** (from \$113,700 in 2013).

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