

Featured Professionals

Laura A. Habein

Thomas B. Henke

Debra J. Linder

Related ServicesCompensation Planning &
Employee Benefits**Benefit Plans: 2023 COLAs****Legal Update**

10.24.2022

The Internal Revenue Service has announced the 2023 cost-of-living adjustments (COLAs) for benefit plans. All limits have increased.

- **Annual compensation limit.** The compensation limit for calculating benefits and contributions, for general and 401(k) discrimination testing and for determining tax deductions has increased to **\$330,000** for plan years beginning in 2023.
- **Elective deferrals (401(k)/Roth/403(b)/457).** The calendar year elective deferral contribution limit has increased to **\$22,500** in calendar year 2023.
- **Catch-up contributions.** The calendar year dollar limitation for catch-up elective deferral contributions for individuals who, in 2023, are age 50 or above remains unchanged at **\$7,500** in calendar year 2023.
- **Highly compensated employee.** For plan years ending in 2023, 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 **\$150,000** 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 has increased to **\$66,000** for plan limitation years ending in 2023.
- **Defined benefit plans.** For plan limitation years ending in 2023, the annual dollar benefit limitation under a defined benefit plan has increased to **\$265,000**. For participants who separated from service before January 1, 2023, the 100 percent of average high-three-years’ compensation limit is computed by multiplying the participant’s compensation limitation, as adjusted through 2022, by **0833**.
- **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 has increased to **\$1,330,000** in 2023, while the dollar amount used to determine the lengthening of the five-year distribution period is increased to **\$265,000**.
- **Key employee in top-heavy plan.** In defining who is a key employee in a top-heavy plan, for plan years ending in 2023, the compensation threshold for an officer has increased to **\$215,000**.

- **Health Flexible Spending Accounts.** The 2023 salary reduction limit is **\$3,050**.
- **Health Savings Accounts.** The calendar year contribution limit of 2023 is **\$3,850** for individuals and **\$7,750** for families.
- **Social security taxable wage base.** The social security taxable wage base for 2023 (applicable to integrated plans with plan years beginning in 2023) has increased to **\$160,200**.