

## 2020 Pension Plan Limitation Highlights

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On November 6, 2019, the Internal Revenue Service issued Notice 2019-59, containing the cost-of-living adjustments related to retirement plan limitations under the Internal Revenue Code (the "Code"). These changes will take effect on January 1, 2020. Below are some of the highlights.

### Limitations That Have Increased

- The limitation on the annual benefit under a defined benefit is increased from \$225,000 to \$230,000 (Code section 415(b)(1)(A)).
- The annual contribution limitation for defined contribution plans is increased from \$56,000 to \$57,000 (Code section 415(c)(1)(A)).
- The annual compensation limit is increased from \$280,000 to \$285,000 (Code sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii)).
- The dollar limitation regarding the definition of "key employee" in a top-heavy plan increased from \$180,000 to \$185,000 (Code section 416(i)(1)(A)(i)).
- The dollar amount for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from \$1,130,000 to \$1,150,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased to \$230,000 up from \$225,000 in 2019 (Code section 409(o)(1)(C)(ii)).
- The limitation used in the definition of "highly compensated employee" is increased from \$125,000 to \$130,000 (Code section 414(q)(1)(B)).
- The adjusted gross income limitation under Code section 25B(b)(1)(A) for determining the retirement savings contribution credit for taxpayers filing as head of household is

increased from \$28,875 to \$29,250; the limitation under Section 25B(b)(1)(B) is increased from \$31,125 to \$31,875; and the limitation under Code sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$48,000 to \$48,750.

- The adjusted gross income limitation under Code section 25B(b)(1)(A) for determining the retirement savings contributions credit for all other taxpayers is increased from \$19,250 to \$19,500; the limitation under Code section 25B(b)(1)(B) is increased from \$20,750 to \$21,250; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$32,000 to \$32,500.
- The limitation under Code section 408(p)(2)(E) regarding SIMPLE retirement accounts is increased from \$13,000 to \$13,500.
- The limitation on deferrals under Code section 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$19,000 to \$19,500.
- The compensation amount under Code section 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes increased from \$110,000 to \$115,000; the compensation amount under Code section 1.61-21(f)(5)(iii) increased from \$225,000 to \$230,000.
- The \$1,000,000,000 threshold the Code utilizes to determine whether a multiemployer plan is a systematically important plan is adjusted using the cost-of-living adjustment. After taking the applicable rounding rule into account, the threshold used to determine whether a multiemployer plan is systemically important is increased from \$1,097,000,000 to \$1,135,000,000. (Code sections 432(e)(9)(H)(v)(III)(aa) and 432(e)(9)(H)(III)(bb)).
- The compensation amount under Code section 1.61-21(f)(5)(iii) is increased from \$225,000 to \$230,000.
- The dollar limitation on premiums paid with respect to a qualifying longevity annuity contract under Code section 1.401(a)(9)-6, A-17(b)(2)(i) of the Income Tax Regulations increased to \$135,000 from \$130,000 in 2019.
- The maximum amount of catch-up contributions that individuals aged 50 or over may make to 401(k) plans, 403(b) plans, SEPs, and governmental 457(b) plans increased to \$6,500 (Code section 414(v)(2)(B)(i)).
- The compensation amount under the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes increased to \$115,000 (Code section 1.61-21(f)(5)(i)).

### **Limitations That Remain Unchanged**

- The deductible amount for an individual making qualified retirement contributions remains \$6,000. (Code section 219(b)(5)(A)).

- The limitation under Code section 664(g)(7) concerning the qualified gratuitous transfer of qualified employer securities to an employee stock ownership plan remains at \$50,000.
- The compensation amount under Code section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains at \$600.
- The maximum amount of catch-up contributions that individuals aged 50 or over may make to SIMPLE 401(k) plans or SIMPLE retirement accounts remains at \$3,000 (Code section 414(v)(2)(B)(ii)).
- The limitation concerning the qualified gratuitous transfer of qualified employer securities to an employee stock ownership plan remains at \$50,000 (Code section 664(g)(7)).

	2020	2019	2018	2017
<b>401(k)/403(b)/457 Elective Deferral Limit</b>	\$ 19,500	\$ 19,000	\$ 18,500	\$ 18,000
<b>Defined Contribution Plan Annual Limit</b>	\$ 57,000	\$ 56,000	\$ 55,000	\$ 54,000
<b>Defined Benefit Plan Annual Limit</b>	\$ 230,000	\$ 225,000	\$ 220,000	\$ 215,000
<b>Annual Compensation Limit</b>	\$ 285,000	\$ 280,000	\$ 275,000	\$ 270,000
<b>Catch-Up Contribution Limit</b>	\$ 6,500	\$ 6,000	\$ 6,000	\$ 6,000
<b>Highly Compensated Employee Compensation Threshold</b>	\$ 130,000	\$ 125,000	\$ 120,000	\$ 120,000
<b>Key Employee Compensation Threshold</b>	\$ 185,000	\$ 180,000	\$ 175,000	\$ 175,000