

Update

Compliance News

November 24, 2020

Numbers Retirement Plan Sponsors Need to Know for 2021

Some indexed IRS dollar limits for retirement plans will increase for 2021. Before the start of the new year, retirement plan sponsors will need to make sure to incorporate the new maximums, limits and thresholds into their software programs or spreadsheets.

In 2021, Social Security benefits and other figures will also increase.

The PBGC premium rates for DB plans subject to ERISA will be higher in 2021.

IRS retirement plan limits

The IRS announced the 2021 dollar limits for qualified plans and other tax-favored retirement plans in [Notice 2020-79 announcing the changes](#), which was issued on October 26, 2020. The table below compares some of the 2021 limits to those limits for 2020.

Retirement Compliance News Highlights

- The IRS deferral and catch-up limits for DC plans will not change.
- The wage base for the Social Security tax will increase 3.75 percent, and Social Security benefits will increase 1.4 percent.
- The PBGC's variable-rate premium for single-employer plans, the per-participant cap on that premium and the PBGC guarantee will increase.

IRS Retirement Plan Limits

	2020	2021
Maximum 415(b) annual payout at age 62 from a DB plan ¹	\$230,000	\$230,000
Maximum 415(c) annual addition to a DC plan account	57,000	58,000
Annual elective 401(k), 403(b) and 457(b) deferral limit	19,500	19,500
Annual 401(k) and 403(b) catch-up limit (age 50 and older)	6,500	6,500
Maximum 401(a)(17) annual compensation amount considered for qualified plans and 403(b) plans	285,000	290,000
Maximum 401(a)(17) annual compensation amount considered for public sector plans that were able to grandfather the old dollar limit ²	425,000	430,000
Annual 414(q) compensation threshold to identify highly compensated employees	130,000	130,000
Annual 416 top-heavy compensation threshold to identify key employees	185,000	185,000
Cost-of-living adjustment (COLA) factor for the 415(b) 100%-of-pay limit ³	1.76% ⁴	1.22% ⁵

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

2 When the Omnibus Budget Reconciliation Act of 1993 reduced the annual compensation limit from \$200,000 to \$150,000, it allowed public sector plans to avoid applying the reduced compensation limit for grandfathered participants (generally, those who became participants in the plan before January 1, 1996). The grandfathered amount for 2021, as shown in the table above, is the 2020 amount as indexed under 401(a)(17).

3 The 100%-of-pay limit does not apply to multiemployer and public sector plans. See 415(b)(11).

4 The 2020 factor is for participants who separate from service before 1/1/20.

5 The 2021 factor will be for participants who separate from service before 1/1/21.

The IRS dollar limits for qualified plans and other tax-favored retirement plans are determined using Consumer Price Index (CPI) data. On October 13, 2020, the Bureau of Labor Statistics [reported](#) the CPI for All Urban Consumers (CPI-U) increased 1.4 percent over the 12 months that ended September 30, 2020.

Social Security benefits

When designing retirement plan benefits, plan sponsors in the private sector generally consider Social Security benefits as a key part of their financial wellness programs because all private sector workers who are U.S. citizens or green card holders are covered by Social Security. In the public sector, some state and local government employees also participate in Social Security.

The Social Security cost of living adjustment (COLA) for 2021 will be 1.4 percent. The Social Security wage base and earnings test will also increase for 2021. The table below compares the 2021 figures to the 2020 figures.

Social Security Benefit Tests and Limits		
	2020	2021
Maximum amount of earnings subject to the Social Security tax ¹	\$137,700	\$142,800
COLA increase	1.6%	1.3%
Social Security National Average Wage Index ²	\$52,145.80 (for 2018)	\$54,099.99 (for 2019)
Primary Insurance Amount (PIA) formula: ³		
a) First bend point	\$960	\$996
b) Second bend point	\$5,785	\$6,002
Maximum Social Security benefit at Social Security Normal Retirement Age (SSNRA) ⁴	\$3,011/month	\$3,148/month
Early retirement earnings test prior to year of attaining SSNRA (amount that can be earned before benefits are cut) ⁵	\$18,240/year	\$18,960/year

1 All earnings are subject to the Medicare tax.

2 This amount is not tied to the CPI-W, but rather to earnings as reported to the Social Security Administration (SSA). The [2019 average \(which is relevant for 2021\) 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 [2021 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.

5 In the year of attaining SSNRA, the early retirement earnings test is higher. For those attaining SSNRA in 2020, the maximum amount that can be earned before benefits are cut will be \$48,600 until the month of attaining SSNRA, up from \$46,920 in 2019. This higher earnings test applies only to earnings in months prior to the month of SSNRA attainment. After attaining SSNRA, individuals can receive their full benefits regardless of how much they earn.

A [press release](#) on this news, a [fact sheet](#) on 2021 Social Security figures and [information about how the COLA is calculated](#) are on the Social Security Administration's website. Additionally, the COLA and other determinations for 2021 were published in the [October 22, 2020 Federal Register](#).

PBGC premiums (for plans covered by ERISA)

On October 15, 2020, the PBGC published [premium rates for 2021](#).

Premiums for single-employer plans

Based on indexing, the flat-rate premium for single employer plans will increase by \$3. The variable-rate premium (VRP) per \$1,000 of unfunded vested benefits for 2021 will increase by just over 2 percent and the per-participant cap on the VRP will increase by nearly 4 percent.

Premiums for Single-Employer Plans		
	2020	2021
Flat-rate premium	\$83	\$86
Variable-rate premium per \$1,000 of unfunded vested benefits	\$45	\$46
Per-participant cap on the variable-rate premium VRP	\$561	\$582

See the PBGC's [premium rates](#) webpage for current and historical information.

Premium for multiemployer plans

We expect the flat-rate, per-participant premium for multiemployer plans will increase by \$1.

Premium for Multiemployer Plans		
	2020	2021
Flat-rate premium	\$30	\$31

The PBGC's [premium rates](#) webpage also includes information about how the premium for multiemployer plans has changed over time.

Multiemployer plans do not pay a variable-rate premium.

PBGC guarantee limits for single-employer plans

The PBGC single-life annuity maximum guarantee for participants in single employer pension plans that terminate during 2021 to increase by approximately 4 percent.

Guarantee Limit at Age 65 for Single-Employer Plans		
	2020	2021
Guarantee limit per month	\$5,812.50	\$6,034.09
Annual guarantee limit	\$69,750.00	\$72,409.08

The PBGC's [monthly maximum guarantee](#) webpage lists the monthly maximum at every age from 45 to 75.

The PBGC's Multiemployer Benefit

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 PBGC's multiemployer guarantee will not change because it is not indexed.

The maximum monthly PBGC guarantee for multiemployer plans 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's website.



Action items

Before the end of this year, plan sponsors should:

- Incorporate the new maximums, limits and thresholds into their software programs or spreadsheets as needed (i.e., for nondiscrimination testing and benefit calculations).
- Make sure that third-party service providers are aware of changes applicable to the sponsor's plan and are on track to implement them in time.

Sponsors of 401(k), 403(b) and governmental 457(b) plans might wish to remind participants to increase their salary reduction amounts before the first paycheck of the new year to take advantage of any increase in the deferral and/or age 50+ catch-up deferral limits for the 2021 year.

Questions?

For more information about how these new limits and amounts may affect your plan, please contact your Segal consultant or [send us a note](#).

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