



2018 COST-OF-LIVING ADJUSTMENTS APPLICABLE TO EMPLOYEE BENEFIT PLANS

The Internal Revenue Service recently announced the cost-of-living adjustments for limitations applicable to employee benefit plans qualified under the Internal Revenue Code (the “Code”).

Elective Deferral Contributions: For the 2018 calendar year, the annual limitation under Code section 402(g)(1) on the amount of elective deferrals to Code section 401(k) plans, Code section 403(b) plans, and Code section 457(b) plans will be increased from \$18,000 to \$18,500. Also, for the 2018 calendar year, the annual limitation under Code section 414(v)(2)(B)(i) will remain at \$6,000 for additional elective deferrals that participants age 50 or over will be allowed to make as “catch-up” contributions to 401(k) plans (other than “SIMPLE” 401(k) plans, for which the amount will remain at \$3,000), 403(b) plans, and 457(b) governmental plans.

Annual Compensation Limit: For plan years beginning in 2018, the annual compensation that a plan may take into account under Code sections 401(a)(17) and 404(l) will be increased from \$270,000 to \$275,000.

Highly Compensated Employees: For plan years beginning in 2018, the compensation threshold used in the definition of “highly compensated employee” under Code section 414(q)(1)(B) will remain at \$120,000. Because the compensation used to determine highly compensated employee status for a particular plan year is compensation for the prior plan year, (i) for determining highly compensated employee status in the plan year beginning in 2018, the relevant compensation will be compensation for the plan year beginning in 2017, and the threshold for that year was also \$120,000; and (ii) for determining highly compensated employee status in the plan year beginning in 2017, the relevant compensation will be compensation for the plan year beginning in 2016, and the threshold for that year was \$120,000 as well.

Defined Contribution and Defined Benefit Plan Limits: For limitation years ending in 2018, the annual addition limitation for defined contribution plans under Code section 415(c)(1)(A) will be increased from \$54,000 to \$55,000, and the annual benefit limitation for defined benefit plans under Code section 415(b)(1)(A) will be increased from \$215,000 to \$220,000.

“Key Employee” for Top-Heavy Plan Rules: For plan years beginning in 2018, the dollar limitation used to determine which officers will be “key employees” under Code section 416(i)(1)(A)(i) for purposes of the top-heavy plan rules will remain at \$175,000.

FICA Wage Base: For the 2018 calendar year, the FICA taxable wage base will be increased from \$127,200 to \$128,700.

Annual Health FSA Limit: For taxable years beginning in 2018, the dollar limitation under Code section 125(i) on voluntary employee salary reductions for contributions to health flexible spending arrangements will be increased from \$2,600 to \$2,650.

Please contact the Thompson & Knight attorney with whom you regularly work or any of the following employee benefits attorneys to discuss these developments.

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