



# PENSION ANALYST COMPLIANCE BULLETIN



## 2018 Dollar Limits Under Employee Benefit Plans

|   | 2018        | 2017        |
|---|-------------|-------------|
| Defined Contribution Limitation .....                               | \$55,000    | \$54,000    |
| Defined Benefit Limitation .....                                    | \$220,000   | \$215,000   |
| Annual Compensation Limit .....                                     | \$275,000   | \$270,000   |
| Annual Compensation Limit for Certain Governmental Plans .....      | \$405,000   | \$400,000   |
| Annual Deferral Limit for 401(k) Plans .....                        | \$18,500    | \$18,000    |
| Annual Deferral Limit for 403(b) Plans .....                        | \$18,500    | \$18,000    |
| Annual Deferral Limit for 457(b) Plans .....                        | \$18,500    | \$18,000    |
| Annual Catch-Up Deferral Limit .....                                | \$6,000     | \$6,000     |
| Annual QLAC Compensation Limit .....                                | \$130,000   | \$125,000   |
| <b>Threshold Amounts for Determination of Key Employees</b>         |             |             |
| Officers Earning More Than .....                                    | \$175,000   | \$175,000   |
| <b>Threshold Amounts for Determination of HCEs in Lookback Year</b> |             |             |
| Employees Earning More Than .....                                   | \$120,000   | \$120,000   |
| Employees in Top 20% Earning More Than .....                        | \$120,000   | \$120,000   |
| <b>ESOP Limited Distribution Period</b>                             |             |             |
| Account Balance Limit for 5-Year Period .....                       | \$1,105,000 | \$1,080,000 |
| Incremental Amount to Extend Period .....                           | \$220,000   | \$215,000   |
| Social Security Taxable Wage Base .....                             | \$128,400   | \$127,200   |

### Descriptions of these limits

The following are basic descriptions of the dollar limits listed above that are subject to cost-of-living adjustments. Many of these limits are modified or adjusted by law, regulations, or plan provisions for specific situations and plan designs.

The “**Defined Contribution Limitation**” is the Annual Additions limit under Internal Revenue Code (“Code”) section 415. Annual Additions are employer contributions (including employee pre-tax and Roth deferrals), reallocated forfeitures and employee post-tax contributions.

The “**Defined Benefit Limitation**” is the Annual Benefit limit under Code section 415, which is generally the lesser of 100% of average compensation or the dollar amount shown above.

The “**Annual Compensation Limit**” is the maximum amount of annual compensation that may be taken into consideration to calculate employer contributions and employee allocations under defined contribution plans, as well as benefit accruals under defined benefit plans and deductible employer contributions.

The “**Annual Compensation Limit for Certain Governmental Plans**” is the compensation limit on annual contributions and benefit accruals that applies to eligible participants under governmental plans that applied the compensation limit under Code section 401(a)(17) as of July 1, 1993 and allowed cost-of-living adjustments to that limit.

The “**Annual Deferral Limit**” for **401(k)** and **403(b)** plans is the basic Code section 402(g) limit on pre-tax deferrals and designated Roth contributions. The same dollar limit on deferrals applies to section **457(b)** plans under Code section 457(b).

The “**Annual Catch-Up Deferral Limit**” is the limit on catch-up deferral contributions that employees who are age 50 or older may make to 401(k) plans, 403(b) plans, and governmental 457(b) plans.

A “**QLAC**” is a qualified longevity annuity contract, purchased on or after July 2, 2014 by a participant in a 401(a)-qualified defined contribution plan, 403(b) plan, IRA, or governmental section 457(b) plan. In general, the premium to purchase a QLAC cannot exceed the lesser of the “annual QLAC compensation limit” of \$130,000 (subject to annual cost-of-living adjustments), or 25% of the participant’s account balance on the date of the premium payment. The \$130,000 limit will be adjusted in \$10,000 increments. For additional information about QLACs, please see our September 2014 *Pension Analyst* titled “IRS provides guidance on Qualified Longevity Annuity Contracts”, which can be accessed at <http://www.retire.prudential.com/view/page/rs/16966> .

The **Key Employee Threshold Amount** is the dollar amount used for determining one category of key employees for top heavy plan testing purposes. In general, an employee is a key employee if he is a company officer at any time during the plan year tested and receives compensation exceeding the threshold amount for that year.

The **HCE Threshold Amount** is the dollar amount used for determining one category of Highly Compensated Employees (HCEs). An employee is an HCE if he received compensation in the lookback year exceeding the threshold amount or, if he was in the top paid (top 20%) group of employees and received compensation exceeding the threshold amount, as specified by the plan. Note that the 2018 amount applies to lookback years beginning during 2018.

The “**ESOP Limited Distribution Period**” is the maximum distribution period imposed under Code section 409(o), which depends on the value of the participant’s account balance. A five-year period applies to balances up to the “Account Balance Limit for 5-Year Period”. An additional year (but not more than five additional years) may be added to the maximum distribution period for each additional “Incremental Amount to Extend Period”.

The “**Social Security Taxable Wage Base**” is the maximum amount of an employee’s annual compensation that is subject to Social Security taxes. This amount is often used in defined contribution formulas as a split point for applying different calculation percentages. “Covered compensation” is a 35-year average of Taxable Wage Bases that is used in a similar manner in defined benefit plan formulas.

#### Compliance Bulletin by Prudential Retirement

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