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HHM

WEALTH ADVISORS

RETIREMENT TIMES

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2023 IRS Limits on Retirement Plan Benefits and Compensation

As published in IRS News Release IR-2022-188, Oct. 21, 2022

	2023	2022	2021
401(k), 403(b), 457 Elective Deferral Limit	$22,500	$20,500	$19,500
Catch-Up Contribution Limit (age 50 and older)	$7,500	$6,500	$6,500
Annual Compensation Limit	$330,000	$305,000	$290,000
Defined Contribution Limit	$66,000	$61,000	$58,000
Defined Benefit Limit	$265,000	$245,000	$230,000
Definition of Highly Compensated Employee	$150,000	$135,000	$130,000
Key Employee	$215,000	$200,000	$185,000
IRA/Roth Contribution Limit	$6,500	$6,000	$6,000
IRA/Roth Catch-Up Contributions (age 50 and older)	$1,000	$1,000	$1,000

Highlights of changes for 2023
The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan has increased to $22,500. The catch-up contribution limit for employees aged 50 and over who participate in these plans increased to $7,500.

The limitation regarding SIMPLE retirement accounts for 2023 has increased to $15,500 with the catch-up contribution limit increasing to $3,500, up respectively from $14,000 and $3,000 in 2022.

The income ranges for determining eligibility to make deductible contributions to traditional Individual Retirement Arrangements (IRAs), to contribute to Roth IRAs and to claim the Saver's Credit all increased for 2023.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. If during the year either the taxpayer or his or her spouse was covered by a retirement plan at work, the deduction may be reduced, or phased out, until it is eliminated, depending on filing status and income. (If neither the taxpayer nor his or her spouse is covered by a retirement plan at work, the phase-outs of the deduction do not apply.)

Here are the phase-out ranges for 2023:

- For single taxpayers covered by a workplace retirement plan, the phase-out range is $73,000 to $83,000, up from $68,000 to $78,000.
- For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is $116,000 to $136,000, up from $109,000 to $129,000.
- For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $218,000 and $228,000, up from $204,000 and $214,000.
- For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

The income phase-out range for taxpayers making contributions to a Roth IRA is $204,000 to $218,000 for singles and heads of household, up from $129,000 to $138,000. For married couples filing jointly, the income phase-out range is $218,000 to $228,000, up from $204,000 to $214,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

The income limit for the Saver's Credit (also known as the Retirement Savings Contributions Credit) for low- and moderate-income workers is $73,000 or married couples filing jointly, up from $68,000; $54,750 for heads of household, up from $51,000; and $36,500 for singles and married individuals filing separately, up from $34,000.

Key limit increased

The limit on annual contributions to an IRA increased to $6,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains unchanged at $1,000.

Details on these and other retirement-related cost-of-living adjustments for 2023 are in **Notice 2022-55 (PDF),** available on IRS.gov.

Planning strategies

Individual IRAs and Roth IRAs can be funded up until your tax filing deadline (not including extensions). Typically, funding employer sponsored plans (via payroll deductions) must occur by 12/31. However, if you are a business owner or self employed, you may be elligible to fund a company sponsored plan known as a Simplified Employee Pension (SEP). Historically, a SEP was the only employer sponsored plan that could be set up after 12/31, with a funding deadline of your extended tax filing deadline.

Effective for 2020 and later taxable years, the SECURE Act allows all qualified plans to be established up until the employer's tax filing due date, plus extensions if applicable. The deadline is now consistent with long-prescribed deadlines for establishing SEP plans. Because deferral contributions cannot be made on income already received, the retroactive effective date does not apply to a plan's elective deferral feature.

If one qualifies, he/she can fund both their employer sponsored plan and an individual retirement account in the same tax years. If you are over the contribution limits to fund individual deductible IRAs or Roth IRAs, you may want to consider funding a non-deductible IRA and then converting it to a Roth IRA. Spouses with no earned income can still fund individual retirement accounts based on their spouse's earnings.

If you are over 70.5 and are charitably inclined, you can make Qualifed Charitable Distributions (QCDs) up to $100,000 annually directly from your IRA. This can be a particularly benficial strategy if you already must take a Required Minimum Distribution (RMD). A QCD counts towards your RMD and allows you to avoid income tax on that portion of your RMD.

Some planning strategies entail complex reporting and may impact other aspects of your financial life. HHM Wealth is happy to help you identify appropriate tax and investment strategies.

Does Your Retirement Plan Stand out From the Crowd?

With more than two-thirds of American workers having access to a retirement plan, employees and job seekers have come to expect one as part of their benefits package. That means it's more important than ever to make sure your offering differentiates your organization from the competition. Whether you're looking to deepen your bench by attracting top talent or retain the valued employees you have, evaluate if your retirement benefit is enough to move the needle.

Workers Want Financial Wellness

Access to a retirement plan can be desirable, but also overwhelming. A retirement plan is many workers' first investing experience, and it can be intimidating if they fear making a mistake with their hard-earned pay or "locking up" funds for many years. When employees sit on the sidelines, they aren't getting all they can out of their retirement plan. Providing the necessary guidance to better understand their plan can give employees the confidence they need to take full advantage of this valuable benefit. A 2022 Schwab survey shows that 23% of respondents desire a financial wellness program, and 20% want access to a financial advisor. Companies like Apple know that offering flexible options to learn about product features and providing one-on-one support helps consumers get the most out of their purchases and promotes customer satisfaction and loyalty. Empower your employees with a robust financial wellness offering with plentiful options for participants to access the information and support they need on demand.

Investment Choices May Bolster Enthusiasm

As worker turnover rates remain stubbornly high during the “great resignation,” your retirement plan can help reduce churn. Offering an array of professionally vetted investment choices may boost participation and enthusiasm. If you do include self-managed options, just be sure to talk to your advisor about providing appropriate education and guardrails so workers can make prudent decisions, especially when it comes to novel or alternative asset classes such as cryptocurrency which may not be considered prudent in the current regulatory environment.

Features That Can Provide a Boost

Consider adding bonus features to set your plan apart when appropriate, such as profit sharing, for example. Or consider allowing participants to use contributions to pay down student debt or build an emergency fund. Also, don’t overlook the ability of more generous “standard” features — such as immediate eligibility, faster vesting, a larger match, and low fees — to give your plan an edge.

A retirement plan offering requires a significant investment of time, money and other organizational resources. It also carries with it a certain degree of risk. Make sure yours is getting the street cred it deserves and paying out the dividends you want as a plan sponsor.

Sources:

https://www.blog.personalcapital.com/blog/retirement-planning/average-401k-balance-age

https://www.planadviser.com/role-401k-todays-tight-labor-market

Documenting Fiduciary Plan Management Responsibilities

ERISA states that every plan document must identify a "Named Fiduciary" to be the individual or entity serving as the primary fiduciary responsible for all plan management activities (e.g., President, Plan Administrator, The Company (BOD), or another individual or entity).

The Named Fiduciary can delegate nearly all plan management responsibilities to "co-fiduciaries"; however, they must retain the responsibility to regularly monitor the prudent management of these co-fiduciaries (e.g., individuals who comprise a plan steering committee or others who impact plan decision making).

Having a Committee Charter is very beneficial when delegating any fiduciary responsibilities to co-fiduciaries.

A Committee Charter documents the delegation of the specified plan management responsibilities, as well as plan practices and procedures, to plan co-fiduciaries. A board resolution adopting the committee is also helpful (if there is no BOD or other controlling entity, an adoption resolution is not necessary). Your financial professional can assist with a sample Committee Charter, and related documents, that can be easily edited to suit your needs.

Co-fiduciary Acceptance, and Resignation signatures, although not specifically required by ERISA, are quite important. The fiduciary acceptance (by signature) specifies the specific responsibility delegations. Resignation signatures are important as well as they can remove the fiduciary from further post resignation liability. ERISA holds that if a co-fiduciary (e.g., Committee member) leaves the Committee, but does not leave the company, they remain liable for the actions of the remaining co-fiduciaries (committee members) unless they sign a resignation statement (also available via your financial professional). Finally, resigning fiduciaries need to follow plan procedures and make certain that another fiduciary is carrying out any responsibilities left behind that are required for prudent plan management. It is critical that a plan has appropriate fiduciaries in place so that it can continue operations and participants have a way to interact with the plan.

See the following link for the DOL's stated positions on these and other fiduciary responsibilities:
https://www.dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/publications/meeting-your-fiduciary-responsibilities.pdf