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Retirement and Pension Plans / Cost of Living Adjustments for Nonprofit Organizations

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The I.R.S. has just issued its annual cost-of-living adjustments applicable in 2017 to tax advantaged qualified retirement (pension, profit-sharing and § 403(b) annuity) plans. Because the rate of inflation during the past year has been relatively low, some of the applicable thresholds will remain unchanged in 2017.

Beginning in 2017, the maximum amount of annual compensation which may be considered in calculating the retirement contribution for a single employee participant in a qualified retirement plan is increased to a level of $270,000 (up from $265,000). The aggregate annual limit on employer and employee contributions to a retirement plan on behalf of a single employee in 2017 is increased to a level of $54,000 (up from $53,000) for defined contribution (§ 403(b), profit sharing and money purchase) plans. Further, the maximum annual pension which may be funded under a defined benefit pension plan (based on actuarial computations) is increased to a level of $215,000 (up from $210,000).

The maximum annual salary reduction contribution available to a single employee under a § 403(b) plan in 2017 remains unchanged at a level of $18,000, and the extra catch-up contribution available to individuals aged 50 or older remains unchanged at a level of $6,000. In addition, § 403(b) plans permitting after-tax Roth contributions may accept such contributions in 2017 up to the same respective $18,000 and $6,000 catch-up levels as an alternative to pre-tax salary reduction contributions.

Further, in determining the group of "highly compensated employees" in 2017 for purposes of testing retirement plans under the nondiscrimination rules, the group will continue to include employees in the top 20% highest paid group who earn an annual salary of more than $120,000.

The limit on deductible contributions to a Traditional IRA in 2017 remains unchanged at $5,500, and the extra catch-up contribution to such a Traditional IRA for individuals aged 50 or older remains unchanged at $1,000. Where an individual and/or the individual's spouse is covered by a workplace retirement plan, the available tax deduction for such Traditional IRA contributions in 2017 will be phased-out based on tax return filing status – for instance, phased-out for single filers with modified adjusted gross income between $62,000 and $72,000; and phased-out for married persons based on their level of income and depending upon whether it is the IRA contributor or the other spouse who is covered by the workplace retirement plan.

The amount of nondeductible after-tax contributions which can be made to a Roth IRA in 2017 will continue to be limited to the unused portion of the same $5,500 and $1,000 catch-up amounts available for Traditional IRA contributions. But, these Roth IRA limits will be phased out in 2017 for single filers with adjusted gross income between $118,000 and $133,000; phased-out for married couples filing jointly with adjusted gross income between $186,000 and $196,000; and phased-out completely for a married person filing a separate return with adjusted gross income above $10,000.

In addition, the Social Security Administration has announced that the maximum amount of earnings subject to most Social Security taxes (other than Medicare) will be increased in 2017 to a level of $127,000 (up from $118,500).