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IRS Announces Adjusted Plan Limits for 2023

November 1, 2022

The Internal Revenue Service has announced cost-of-living-adjusted limits for 2023 that affect the operation of tax-qualified retirement plans, including 401(k) plans and certain other types of employee benefit plans, such as deferred compensation plans that may be subject to Internal Revenue Code §409A. The amount by which the limits are adjusted each year is based on a cost-of-living index, and not all limits increase every year. For 2023, however, all of the plan-related, cost-of-living-adjusted limits listed below have increased from 2022. In connection with the increased limits for 2023, employers should revise participant communications and election forms, amend plan documents and summary plan descriptions, and update all payroll and/or human resources systems with the new dollar amount limitations.

The Social Security Old-Age, Survivors, and Disability Insurance (OASDI) taxable wage base, which governs the amount of pay subject to Social Security tax withholding and affects plans that are “integrated” with Social Security, also is subject to adjustment annually. For 2023, the OASDI taxable wage base has been increased to \$160,200.

Adjusted limits

| Provision | 2023 limit |
|---|------------|
| Maximum 401(k) contributions | \$22,500 |
| Maximum compensation limit | \$330,000 |
| Highly compensated employees Earning (in previous year) more than | \$150,000 |
| Key employee compensation limit | \$215,000 |
| Annual contribution limit for defined contribution plans | \$66,000 |
| Annual benefit limit for defined benefit plans | \$265,000 |
| SIMPLE plan limit | \$15,000 |

| Provision | 2023 limit |
|---|--------------------------|
| Age 50 and older catch-up contribution limit All plans other than SIMPLE plans SIMPLE plans | \$7,500 \$3,500 |
| Annual contribution limit for Section 457 deferred compensation plans (government and tax-exempt organizations) | \$22,500 |
| Employee stock ownership plan (ESOP) Maximum account balance subject to five-year distribution period Each incremental dollar amount in excess of account balance that adds one year to five-year distribution period | \$1,330,000 \$265,000 |
| Simplified employee pension (SEP) plans Contributions must be made for employees earning at least | \$750 |
| 409A minimum specified employee (officer) compensation requirement | \$215,000 |
| 409A involuntary separation pay exception | \$660,000 |

If you have questions about the information covered in this alert, please contact a member of your Cooley team or one of the lawyers from the compensation & benefits group listed below.

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