



Inflation means you and your employees can save more for retirement in 2023

How much can you and your employees contribute to your 401(k)s next year — or other retirement plans? In Notice 2022-55, the IRS recently announced cost-of-living adjustments that apply to the dollar limitations for pensions, as well as other qualified retirement plans for 2023. The amounts increased more than they have in recent years due to inflation.

401(k) plans

The 2023 contribution limit for employees who participate in 401(k) plans will increase to \$22,500 (up from \$20,500 in 2022). This contribution amount also applies to 403(b) plans, most 457 plans and the federal government's Thrift Savings Plan.

The catch-up contribution limit for employees age 50 and over who participate in 401(k) plans and the other plans mentioned above will increase to \$7,500 (up from \$6,500 in 2022). Therefore, participants in 401(k) plans (and the others listed above) who are 50 and older can contribute up to \$30,000 in 2023.

SEP plans and defined contribution plans

The limitation for defined contribution plans, including a Simplified Employee Pension (SEP) plan, will increase from \$61,000 to \$66,000. To participate in a SEP, an eligible employee must receive at least a certain amount of compensation for the year. That amount will increase in 2023 to \$750 (from \$650 for 2022).

SIMPLE plans

Deferrals to a SIMPLE plan will increase to \$15,500 in 2023 (up from \$14,000 in 2022). The catch-up contribution limit for employees age 50 and over who participate in SIMPLE plans will increase to \$3,500 in 2023, up from \$3,000.

Other plan limits

The IRS also announced that in 2023:

- The limitation on the annual benefit under a defined benefit plan will increase from \$245,000 to \$265,000. For a participant who separated from service before January 1, 2023, the participant's limitation under a defined benefit plan is computed by multiplying the participant's compensation limitation, as adjusted through 2022, by 1.0833.
- The dollar limitation concerning the definition of "key employee" in a top-heavy plan will increase from \$200,000 to \$215,000.
- The dollar amount for determining the maximum account balance in an employee stock ownership plan subject to a five-year distribution period will increase from \$1,230,000 to \$1,330,000, while the dollar amount used to determine the lengthening of the five-year distribution period will increase from \$245,000 to \$265,000.
- The limitation used in the definition of "highly compensated employee" will increase from \$135,000 to \$150,000.

IRA contributions

The 2023 limit on annual contributions to an individual IRA will increase to \$6,500 (up from \$6,000 for 2022). The IRA catch-up contribution limit for individuals age 50 and older isn't subject to an annual cost-of-living adjustment and will remain \$1,000.

Plan ahead

Current high inflation rates will make it easier for you and your employees to save much more in your retirement plans in 2023. The contribution amounts will be a great deal higher next year than they've been in recent years. Contact us if you have questions about your tax-advantaged retirement plan or if you want to explore other retirement plan options