

Retirement Plan Contribution Limits for 2023

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Each year the IRS makes cost of living adjustments to many of the limits on benefits from - and contributions to - qualified and non-qualified retirement plans. Below are the new limits for 2023; all have been increased from the 2022 limits.

- The maximum annual contribution to an individual's account in a defined contribution plan (a money-purchase, profit sharing and/or 401(k) plan) cannot exceed the lesser of 100% of the individual's compensation or **\$66,000**. That amount includes employer contributions, employee 401(k) contributions, and forfeitures. If your defined contribution plan has a fiscal year other than the calendar year, this new limit is effective for plan limitation years ending in 2023.
- The maximum annual 401(k) contribution an individual can make in 2023 is **\$22,500**. An individual who is 50 or older in 2023 can make an additional "catch-up" 401(k) contribution of up to **\$7,500** over and above the \$22,500 limit. These limitations include Roth 401(k) contributions. In other words, total 401(k) contributions are limited to \$22,500 (plus the \$7,500 catch-up amount if applicable), regardless of how much of the total comes from "pre-tax" 401(k) contributions and how much from Roth 401(k) after-tax contributions.
- The maximum annual benefit which may be paid to an individual in a defined benefit plan is the lesser of 100% of the individual's average compensation for the highest paid three consecutive years of his or her employment, or **\$265,000**. If your defined benefit plan has a fiscal year other than the calendar year, this limit is effective for plan years ending in 2023.
- The maximum amount of an employee's annual compensation which may be taken into account for contribution or benefit calculation purposes is **\$330,000**, effective for plan years beginning in 2023. If your plan has a fiscal year other than the calendar year, this limit is effective for plan limitation years beginning in 2023.
- For tax-exempt entities, the maximum amount which an individual may contribute to a 457(b) plan is **\$22,500**.
- Special rules apply to "top heavy" plans. A defined contribution plan is top heavy if the aggregate account balances of key employees exceed 60% of the aggregate account balances of all plan participants. A defined benefit plan is top heavy if the present value of the accrued benefits of key employees exceeds 60% of the present value of the accrued benefits of all plan participants. For 2023, the compensation paid to an officer that would cause him or her to be classified as a "key employee" is **\$215,000**.
- A retirement plan may not discriminate in favor of "highly compensated" employees. An employee is a highly compensated employee in 2023 if the employee either (1) owns greater than 5% of the ownership interests in the employer, or (2) earned over **\$135,000** in 2022 and, if applicable, is in the top 20% of employees when ranked by pay.
- The Social Security taxable wage base used in plans whose contribution formulas are integrated with Social Security (this is also referred to as permitted disparity) is **\$160,200** in 2023.

On a fairly regular basis, employers should review their plan's design to ensure that the key employees are benefiting from the increased contributions, and that the plan is operating as a valuable recruitment and retention tool. You may want us to review your current retirement plan to make sure it maximizes the potential benefits and is consistent with the overall objectives of the organization. Please feel free to contact us:

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The table below sets forth the limitations for 2023 together with the 2022 and 2021 limitations:

	2023	2022	2021
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Social Security Taxable Wage Base for plans with contribution formulas that are integrated with Social Security (also known as “permitted disparity”)	\$160,200	\$147,000	\$142,800
Maximum annual compensation of an individual that may be taken into account for contribution or benefit calculation purposes	\$330,000	\$305,000	\$290,000
Maximum permitted annual 401(k)/457(b) Contribution	\$22,500	\$20,500	\$19,500
Limit on annual catch-up contributions to 401(k) and governmental 457(b) plans	\$7,500	\$6,500	\$6,500
Maximum annual contribution permitted to a defined contribution plan participant’s account	\$66,000 or 100% of pay	\$61,000 or 100% of pay	\$58,000 or 100% of pay
Maximum annual benefit payable to a defined benefit plan participant	\$265,000	\$245,000	\$230,000
Compensation paid to an officer that would cause him/her to be classified as a Key Employee	\$215,000	\$200,000	\$185,000
Compensation paid to an employee (other than a 5% owner) in the prior year that could cause him/her to be classified as a Highly Compensated Employee	\$135,000	\$130,000	\$130,000