REGULATORY Update

Q4 2018

IRS Announces 2019 Retirement Plan Limits

On November 1, 2018, the IRS released Notice 2018-83, announcing cost-of-living adjustments (COLAs) that affect contribution limits for retirement plans in 2019. The list below, although not exhaustive, highlights key changes that retirement plan sponsors should be aware of, as well as some limitations that remain unchanged from 2018:

- The elective deferral limit is increasing from $18,500 to $19,000.
- The aggregate contribution limit for defined contribution plans is increasing from $55,000 to $56,000.
- The annual compensation limit used to calculate contributions is increasing from $275,000 to $280,000.
- The limitation on the annual benefit under a defined benefit plan is increasing from $220,000 to $225,000. (For a participant who separated from service before January 1, 2019, the limitation for defined benefit plans under Section 415(b)(1)(B) can be computed by multiplying the participant's compensation limitation, as adjusted through 2018, by 1.0264.)
- The dollar limit used in the definition of "key employee" in a top-heavy retirement plan is increasing from $175,000 to $180,000.
- The dollar limit used in the definition of "highly compensated employee" is increasing from $120,000 to $125,000.
- The catch-up contribution limit for employees ages 50 and older remains unchanged at $6,000.

The table below compares the newly announced 2019 retirement plan contribution limits with 2018 limits.

Plan Feature	2018 Limit	2019 Limit
401(k), 403(b), and 457 elective deferral	$18,500	$19,000
Aggregate defined contribution	$55,000	$56,000
Annual Compensation	$275,000	$280,000
Defined benefit dollar limit	$220,000	$225,000
Key employee compensation	$175,000	$180,000
Highly compensated employee compensation	$120,000	$125,000
Catch-up contribution	$6,000	$6,000

Lawmaker Initiatives Tackle Retirement Savings

A busy several months from Washington lawmakers could spell changes for many retirement savings accounts, including employer-sponsored retirement plans. President Trump, the U.S. House of Representatives, and the IRS all unveiled separate proposed initiatives that could affect retirement plan administration, retirement distributions, retirement savings vehicles, and more. Below is a summary of the recent initiatives, plus what retirement plan sponsors should be aware of as these proposals unfold.

- On August 17, the IRS released public letter ruling (PLR) 201833012. This PLR was given in response to an inquiry from an employer that had proposed amending its 401(k) plan to offer a student loan benefit program that would allow for special 401(k) contributions into the accounts of employees who are repaying student loan obligations. The IRS's ruling confirmed a key finding—that the "contingent benefit rule," which prohibits an employer from making "other benefits" contingent upon making a 401(k) contribution—is satisfied. This ruling could open the door for employers to explore a potential student loan benefit for their own employees. As with any plan design consideration, however, plan sponsors should consult with ERISA counsel to determine the feasibility of implementing any benefit program.

- On August 31, President Trump issued an executive order that calls for the federal government to reexamine several regulations that could eventually change some long-standing retirement regulations. Here are the main items that would be affected by this executive order:
  - **Required minimum distributions (RMDs).** Today's rules mandate that account owners begin to withdraw traditional IRA and pretax 401(k) assets from their retirement accounts when they reach age 70½ (although some exceptions apply). The amount is determined by a calculation that factors in life expectancy tables, and it is subject to taxes. The president's executive order has asked the Department of Treasury to take a fresh look at this rule. It suggests that because Americans are living longer than ever before, the required minimum age should be pushed back so that retirement savers can keep saving during their early retirement years without the mandate of drawing down on their savings nest eggs.
  - **Retirement plans for small businesses.** The president's order also requested that the Department of Labor explore ways in which small businesses can affordably offer a 401(k) plan. Lowering the retirement plan barrier would be achieved by allowing small businesses to band together and participate in a pooled plan, commonly known as a multiple employer plan or association retirement plan. By joining together, small businesses could strengthen their buying powers to gain access to less costly plans and a greater array of services. The order also includes a directive to consider ways to reduce the requirement of notices and administrative paperwork that burden retirement plan sponsors.
- On September 11, House Ways and Means Committee Chairman Kevin Brady of Texas unveiled three bills that House Republicans have dubbed "Tax Reform 2.0." The Protecting Family and Small Business Tax Cuts Act of 2018, the Family Savings Act of 2018, and the American Innovation Act of 2018 are being touted as an extension of 2017's Tax Cuts and Jobs Act. Together, they would affect workplace retirement plans, with several measures aimed at enhancing retirement savings efforts:
  - A provision that would allow individuals to access their 401(k) accounts, penalty free, to pay for expenses related to a new child
  - The creation of a universal savings account that would allow for withdrawals to be made at any time, not just at retirement age
  - The expansion of 529 plan accounts to include the coverage of trade apprenticeship fees, homeschooling costs, and student debt payoffs
  - A repeal of the maximum age for making traditional IRA contributions
  - An exemption from RMD rules for individuals with $50,000 or less in retirement savings

We Can Help

We are ready to provide you with the ideas, guidance, and foresight to position your firm for success. If you would like to review the new pension plan limits or legislative happenings that may affect your firm's benefit plan offerings, we're here to assist you.

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