

2016 Retirement Plan Contribution Limits

Tame yearly inflation means very little change.

Provided by Ellen Dorle, CFP

Over the past 12 months, consumer prices have increased very little. The latest Consumer Price Index (September) shows 0.0% yearly inflation and only 1.9% core yearly inflation. That means no cost-of-living adjustment for Social Security, and very few IRS adjustments to retirement plan contribution limits.¹

Roth IRA & traditional IRA contribution limits stay the same for 2016. Those 49 and younger in 2016 can contribute up to \$5,500 to their IRAs, while those 50 and older will be able to contribute \$6,500.²

401(k), 403(b), 457 & TSP annual contribution limits are also unchanged. Savers will be able to defer up to \$18,000 into these plans in 2016 with an additional catch-up contribution of up to \$6,000 permitted for those 50 or older.³

SIMPLE IRAs? No COLA for those accounts either. The base contribution limit for a SIMPLE IRA stays at \$12,500 next year, the catch-up contribution limit at \$3,000.²

The same goes for SEP-IRAs & Solo 401(k)s. Small business owners have a maximum deferral amount of \$53,000 for 2016. As for the compensation limit factored into the savings calculation, that limit will remain at \$265,000. The compensation threshold for an employee to be included in a SEP plan stays at \$600 (i.e., that worker has to receive \$600 or more in compensation from your business in 2016).^{2,3}

The phase-out range for Roth IRA contributions has been adjusted a bit. In 2016, you will be unable to make a Roth IRA contribution if your AGI exceeds \$194,000 as a married couple filing jointly, or \$132,000 should you be a single filer or head of household. Those figures are \$1,000 higher than in 2015. Joint filers with AGI of \$184,001-194,000 and singles and heads of household with AGI of \$117,001-132,000 will be able to make a partial rather than full Roth IRA contribution next year. If you really want a Roth IRA but your AGI is too high, you can always open a traditional IRA and then convert it to a Roth.²

As for deducting regular IRA contributions, one phase-out range change has been made. The change is slight. If you contribute to a traditional IRA and your employer doesn't sponsor a retirement plan, yet your spouse contributes to a workplace retirement plan, the AGI phase-out on deductions of traditional IRA contributions strikes when your combined AGI ranges from \$184,001-194,000. That is a \$1,000 increase from the 2015 phase-out range.²

If you are a single filer or file as a head of household contributing to a traditional IRA and you are also covered by a workplace retirement plan, the AGI phase-out range for you remains at

\$61,001-71,000. If you file jointly, contribute to a traditional IRA and are also covered by a workplace retirement plan, your AGI phase-out range is the same in 2016 – \$98,001-118,000. Above the high end of those phase-out ranges, you can't claim a deduction for traditional IRA contributions.²

If you are married, filing separately and covered by a workplace retirement plan, the phase-out range on deductions of traditional IRA contributions is \$0-\$10,000 (this never gets a COLA).²

AGI limits for the Saver's Credit will rise slightly. Americans saving for retirement on modest incomes will be eligible for the credit next year if their AGI falls underneath certain thresholds: single filers and marrieds filing separately, adjusted gross income of \$30,750 or less; heads of household, AGI of \$46,125 or less; joint filers, \$61,500 or less.²

ESOP dollar amounts are unchanged next year. The dollar amount used to figure out the maximum account balance in an ESOP subject to a 5-year distribution period will still be \$1,070,000 in 2016, while the dollar amount used to determine the lengthening of the 5-year distribution period will remain at \$210,000.³

Contribution limits for profit-sharing plans rise as per limits for 401(k)s. A participant in such a plan is looking at a 2016 elective deferral limit of \$18,000 (\$24,000 if she or he is old enough to make catch-up contributions). The yearly compensation limit on such plans stays at \$265,000.⁴

Lastly, maximum yearly benefits for a defined benefit plan will remain at \$210,000. The dollar limitation defining key employees within a top-heavy plan again stays at \$170,000.³

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Citations.

1 - usatoday.com/story/money/2015/10/15/cpi-for-september/73957022/ [10/15/15]

2 - forbes.com/sites/ashleaebeling/2015/10/21/irs-announces-2016-retirement-plans-contribution-limits-for-401ks-and-more/ [10/21/15]

3 - [irs.gov/uac/Newsroom/IRS-Announces-2016-Pension-Plan-Limitations%3B401%28%29-Contribution-Limit-Remains-Unchanged-at-\\$18,000-for-2016](http://irs.gov/uac/Newsroom/IRS-Announces-2016-Pension-Plan-Limitations%3B401%28%29-Contribution-Limit-Remains-Unchanged-at-$18,000-for-2016) [10/21/15]

4 - shrm.org/hrdisciplines/benefits/articles/pages/2016-irs-401k-contribution-limits.aspx [10/22/15]