



AMERICAN BENEFITS COUNCIL

COST-OF-LIVING ADJUSTMENTS FOR 2021 TAX YEAR

Annual cost-of-living adjustments have resulted in a number of changes to statutory limits for retirement, health and fringe benefit plans.

Retirement Plans

On October 26, the Internal Revenue Service (IRS) issued [Notice 2020-79](#), announcing certain inflation adjustments applicable to dollar limitations for Tax Year 2021.

In most cases, the cost-of-living index has not triggered increased limits. The maximum deferral limit for employees remains \$19,500 for 2021 and the maximum catch-up contribution also remains the same. Key adjustments are provided below:

Retirement Plan Limits	2020	2021
<i>Maximum annual pension benefit:</i> [415(b)] (The limit applied is actually the lesser of the dollar limit or 100 percent of the participant's average compensation (generally the high three consecutive years of service))	\$230,000	\$230,000
<i>Defined contribution maximum deferral</i> [415(c)]	\$57,000	\$58,000
<i>Maximum elective deferral</i> [401(k), 403(b), 457, Thrift Savings Plan]	\$19,500	\$19,500
<i>Maximum elective deferral for SIMPLE retirement accounts</i> [408(p)(2)(E)]	\$13,500	\$13,500
<i>Maximum Catch-up Contribution:</i> for those age 50 and over, contributions to an applicable employer SIMPLE plan	\$3,000	\$3,000
<i>Maximum Catch-up Contribution:</i> for those age 50 and over, contributions to an applicable employer plan (non-SIMPLE plan)	\$6,500	\$6,500

<i>Limit on Annual IRA Contributions</i> [219(b)(5)(A)]	\$6,000	\$6,000
<i>Qualified Longevity Annuity Contract (QLAC)</i> [401(a)(9)-6]	\$135,000	\$135,000
<i>Annual Compensation Limit</i> [401(a)(17); 404(l); 408(k)(3)(C); 408(k)(6)(D)(ii)]	\$285,000	\$290,000
<i>Annual Compensation Limit:</i> For eligible participants in certain governmental plans, the compensation limitation to be taken into account [401(a)(17)]	\$425,000	\$430,000
<i>Highly Compensated Threshold</i> [414(q)]	\$130,000	\$130,000

Notice 2020-79 also sets forth the income ranges for determining eligibility to make deductible contributions to traditional Individual Retirement Arrangements (IRAs), to contribute to Roth IRAs and to claim the Saver’s Credit, all of which have increased for 2021.

In a separate release, the Pension Benefit Guaranty Corporation (PBGC) has revealed [2021 insurance premium amounts](#) for both flat-rate and variable-rate payers.

The per-participant flat premium rate for plan years beginning in 2021 is \$86 for single-employer plans (up from a 2020 rate of \$83) and \$31 for multiemployer plans (up from a 2020 rate of \$30).

For plan years beginning in 2021, the variable-rate premium (VRP) for single-employer plans is \$46 per \$1,000 of unfunded vested benefits (UVBs), up from a 2020 rate of \$45.

For 2021, the VRP is capped at \$582 multiplied by the number of participants (up from a 2019 cap of \$561). Plans sponsored by small employers (generally fewer than 25 employees) may be subject to a lower cap. Multiemployer plans do not pay a VRP.

In related news, on October 13 the Social Security Administration [announced](#) a 1.3 percent Cost of Living Adjustment increase in 2021, triggering increases in certain tax, benefit and earning amounts, including the retirement earnings test exempt amounts. The maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to \$142,800 from \$137,700.

Health Plans & Transportation Benefits

Also on October 26, the IRS released [Revenue Procedure 2020-45](#), announcing certain inflation adjustments applicable to dollar limitations for Tax Year 2021, including regarding health flexible spending arrangements (FSAs) and transportation benefits.

Key adjustments are provided below:

Health Plan & Fringe Benefit Amounts	2020	2021
<i>Cafeteria plans:</i> Limitation on voluntary employee salary reductions for contributions to a health FSA [125]	\$2,750	\$2,750
<i>Cafeteria plan carryover:</i> If applicable, maximum amount that can be carried over from previous year [Notice 2020-33]	\$500	\$550
<i>Periodic payments received under qualified long-term care insurance contracts or under certain life insurance contracts:</i> Dollar amount of the per diem limitation regarding periodic payments received under a qualified long-term care insurance contract or periodic payments received under a life insurance contract that are treated as paid by reason of the death of a chronically ill individual [7702B(d)]	\$380	\$400
<i>Monthly limitation for qualified transportation fringe benefit</i> (transit/parking) [132(f)(2)]	\$270	\$270

In conversations with the IRS and U.S. Treasury Department officials, and in a recent letter, the Council is attempting to secure additional FSA relief for employees due to the pandemic. (See the [October 27 Benefits Byte](#) for more details.)

As reported in the [May 21 Benefits Byte](#), the IRS released 2021 indexed amounts for health savings accounts (HSAs), adjusted for inflation, in [Revenue Procedure 2020-32](#).

Health Savings Account and High-Deductible Health Plan Amounts	Calendar Year 2020		Calendar Year 2021	
	Self-only	Family	Self-only	Family
<i>Annual Contribution Limit</i>	\$3,550	\$7,100	\$3,600	\$7,200
<i>HDHP Minimum Deductible</i>	\$1,400	\$2,800	\$1,400	\$2,800
<i>HDHP Out-of-Pocket Limit (includes deductibles, co-payments and other amounts but not premiums)</i>	\$6,900	\$13,800	\$7,000	\$14,000