

IRS Announcement Qualified Pension Plan Limitations for 2020

The Internal Revenue Service recently announced cost-of-living and statutory dollar limitations for qualified pension plans for 2020. Some of the changes are listed below.

PROVISION	2019 LIMIT	2020 LIMIT
401(k) Elective Deferral Limit		
Annual employee contribution to 401(k) plans	\$19,000	\$19,500
Additional 401(k) contributions for employees age 50 or over	\$6,000	\$6,500
Maximum Compensation Limit		
The amount of annual compensation that can be taken into account when determining plan benefits	\$280,000	\$285,000
Defined Benefit Limit		
The maximum annual straight-life benefit at age 65 (not to exceed 100% of average annual compensation)	\$225,000	\$230,000
Defined Contribution Limit		
The maximum annual contribution to a defined contribution plan (not to exceed 100% of compensation)	\$56,000	\$57,000
Highly Compensated Employee Definition		
Dollar limit on who is considered a highly compensated employee	\$125,000	\$130,000

Social Security Facts

The combined tax rate for Social Security and Medicare for an employee is 7.65%. The Social Security portion (OASDI) is 6.20% on earnings up to the applicable taxable maximum amount.

The Medicare portion (HI) is 1.45% on all earnings. There is an additional 0.9% Medicare tax on all earnings above certain threshold amounts (\$250,000 in wages for married filing jointly and \$200,000 for single taxpayers). These thresholds are not indexed for inflation. For a married couple, filing a joint return, the additional 0.9% tax is on the combined earnings of the employee and the employee's spouse.

TAX RATES	2019	2020
Employee	7.65%	7.65%
Self-Employed	15.30%	15.30%

MAXIMUM TAXABLE EARNINGS	2019	2020
Social Security (OASDI only)	\$132,900	\$137,700
Medicare (HI only)	No Limit	No Limit

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