

# Benefits Alert

AUGUST 2021

## The 2022 IRS limits for employee benefit plans are expected to increase by 5.0% to 6.5% over the 2021 limits

The 2022 Internal Revenue Service (IRS) limits for tax-qualified employee benefit retirement plans are forecast to be higher than the year-over-year increases that produced the [2021 IRS limits](#). The 2022 limits will be calculated using the Consumer Price Index – Urban (CPI-U) for the federal fiscal year ending September 30, 2021. There are only two months remaining before the final determination expected in November 2021.

This Benefits Alert is a forecast of the IRS limits that are mandatory for administration of IRS employee benefits retirement program calculations starting in 2022. Our forecast calculations use the actual CPI-U values for October 2020 through July 2021, as reported by the U.S. [Bureau of Labor Statistics on August 11, 2021](#). For this forecast, the monthly CPI-U for both the August and September 2021 CPI-U are expected to be no higher than 0.25% (3.0% annually).

For perspective and as a reference, the trailing 12-month annual CPI-U ending July 31, 2021, is 5.4%, and the July 2021 CPI-U was 0.5% (6.0% annually).

It is stressed that these are estimates and the actual 2022 IRS limits will likely be published in November 2021 after the close of the federal fiscal year and subsequent to the IRS analysis of the actual data.

FIGURE 1: IRS LIMITS

Category of Annual IRS Limits	ESTIMATED 2022 IRS LIMITS			
	Actual 10-month CPI-U + 0.25% for August and September	2021 IRS Limits Actual	Dollar Change	Percentage Change (rounded)
Individual Elective Tax-Deferred Contributions to Savings Plans (IRC §402(g))	\$20,500	\$19,500	\$1,000	5.1%
Combined Individual and Employer Elective Tax-Deferred Contributions to Savings Plans (IRC §415(c)(1))	\$61,000	\$58,000	\$3,000	5.2%
Individual Elective Catch-Up Tax-Deferred Contributions to Savings Plans (IRC §414(v)(2))	\$6,500	\$6,500	\$0	No Change
Maximum Defined Benefit Pension Plan Annuity (IRC §415(b)(1))	\$245,000	\$230,000	\$15,000	6.5%
Compensation Limit for Tax-Qualified Plans (IRC §401(a)(17))	\$305,000	\$290,000	\$15,000	5.2%
Compensation Limit for Highly Compensated Employees (IRC §414(q))	\$135,000	\$130,000	\$5,000	3.8%

**For defined contribution (DC) savings plans (401[k], 403[b]; tax-deferred or Roth):** Plan sponsors may wish to review the contribution patterns over the last few years of their participants who were or are contributing at the maximum IRS limits. As well, for those with a profit-sharing feature, it may be of interest to assess how many participants could be affected by the expected increase in both the savings plan total limit and the compensation limit. If a nonqualified savings plan feature exists, there could be a reduction in the amount to finance in a rabbi trust or leave as an unfunded non-secured obligation of the plan sponsor.

**For defined benefit (DB) pension plans:** Note that the maximum annual annuity value above for the “415 limit” is typically available at a DB plan’s “normal retirement age.” For early retirement ages under the plan, the annuity value is reduced according to the plan document rules. Employers may also sponsor nonqualified DB plans, and those values could be affected as well.

**Social Security and Medicare Part B values for 2022** are *not* part of this forecast. A forecast of the 2022 Social Security Taxable Wage Base is not included because that value is indexed by the national average wage calculations and not the CPI-U. Medicare costs for 2022 (Parts A, B, C, and D) will be published in December 2021. See [Medicare costs at a glance | Medicare](#).

Note that the forecasts in this Benefits Alert do not include any changes to existing federal law after the time of publication that may result from actions taken by the 117<sup>th</sup> Congress.

Last, employers may also review their employee benefit programs holistically for any increases in cost for a variety of reasons, CPI-U inflation being just one. [Milliman has forecasted that employer healthcare costs](#) are likely to increase by about 8.4% in 2021 from 2020. Total employer labor costs, according to long-term trends reported by the [Bureau of Labor Statistics](#), split wages and salaries from “fringe benefits” by 70% to 30%. Fringe benefits include health insurance, savings plans, DB plans, mandatory payroll taxes, etc.

Please contact your Milliman consultant for additional information that affects your employer benefit programs.



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