REGULATORY Update

Q1 2022

Several Retirement Plan Limits Increase in 2022

In late 2021, the Internal Revenue Service released Notice 2021-61, announcing cost-of-living adjustments that affect contribution limits for workplace retirement plans and retirement accounts in 2022, with many key limits increasing from 2021. The list below, though not exhaustive, highlights the key limit changes that retirement plan sponsors should be aware of:

- The elective deferral limit for 401(k) and 403(b) plans increased from $19,500 to $20,500.
- The aggregate contribution limit for defined contribution plans increased from $58,000 to $61,000.
- The annual compensation limit used to calculate contributions increased from $290,000 to $305,000.
- The dollar limit used in the definition of "key employee" in a top-heavy retirement plan increased from $185,000 to $200,000.
- The dollar limit used in the definition of "highly compensated employee" increased from $130,000 to $135,000.
- The catch-up contribution limit for employees ages 50 and older remains unchanged at $6,500.

The table below displays both 2021 and 2022 limits for a host of tax breaks:

401(k) Plan Limits for Plan Year	2021 Limit	2022 Limit
401(k) elective deferral limit[1]	$19,500	$20,500
Catch-up contribution[2]	$6,500	$6,500
Defined contribution dollar limit	$58,000	$61,000
Compensation limit[3]	$290,000	$305,000
Highly compensated employee income limit	$130,000	$135,000
Key employee officer limit	$185,000	$200,000
Non-401(k) Limits		
403(b) elective deferral limit[1]	$19,500	$20,500
Defined benefit dollar limit	$230,000	$245,000
457 employee deferral limit	$19,500	$20,500

[1] Employee deferrals to all 401(k) and 403(b) plans must be aggregated for purposes of this limit.

[2] Contributors must be age 50 or older during the calendar year.

[3] All compensation from a single employer (including all members of a controlled group) must be aggregated for purposes of this limit.

EBSA Restores More Than $2.4 Billion to Benefit Plans and Participants

The Employee Benefits Security Administration (EBSA)—the enforcement arm of the Department of Labor (DOL) that is responsible for oversight of ERISA-governed employee benefits plans—recently released its annual fact sheet. The fact sheet summarizes the results of the agency's investigation activity for the fiscal year ending September 30, 2021. EBSA's latest statistics are eye-opening and provide a stark reminder to retirement plan sponsors and fiduciaries that the DOL and EBSA are actively monitoring ERISA plans to ensure that employee accounts and interests are suitably protected. Below is a sampling of EBSA's enforcements in 2021:

- In total, more than $2.4 billion was recovered, with $1.9 billion coming from enforcement actions.
- EBSA closed 1,072 civil investigations, with 741 of those cases (69 percent) resulting in monetary results for plans or other corrective action and 70 cases referred for litigation.
- EBSA's enforcement program helped 16,024 terminated vested participants in defined benefit plans collect benefits of $1.548 billion owed to them.
- EBSA issued 449 non-monetary corrections and injunctive relief, including removal of 6 fiduciaries, orders barring 34 individuals from acting as fiduciaries, court appointments of 16 independent fiduciaries, and 124 cases involving reforms of plan procedures, such as improved search procedures for missing participants.
- EBSA's benefits advisors closed more than 175,000 inquiries and recovered $499.5 million in benefits on behalf of workers and their families through the informal resolution of individual complaints levied via EBSA's toll-free number or website.
- EBSA's criminal investigations, including criminal investigations conducted in coordination with other law enforcement agencies, led to the indictment of 72 individuals.

EBSA's report serves as a pertinent reminder to retirement plan sponsors and fiduciaries that the DOL is actively pursuing opportunities to enforce ERISA's standards.

New IRS Life Expectancy Tables Effective in 2022

In November 2020, the IRS issued new regulations that included updated life expectancy tables used for calculating required minimum distributions (RMDs). The new tables became effective on January 1, 2022, for all 2022 RMDs. As a reminder, funds cannot remain in retirement accounts indefinitely, and account owners generally must begin withdrawing their funds when they reach age 72.

What Has Changed?

The new life expectancy tables use updated distribution factors that result in increased life expectancies, since the last tables were issued nearly 20 years ago. The updated distribution periods will generally provide lesser payment amounts than those calculated with the previous tables.

Although the factors have changed, account owners may not notice a significant difference in their distribution amounts. Nevertheless, the new factors will allow individuals to retain larger amounts in their retirement plans to account for a longer life expectancy.

Although the impact to retirement plan sponsors and administrators is minimal, mainly because a third-party administrator (TPA) or service provider will calculate RMD amounts for the employees who are required to take them, as a best practice, there should be a general awareness of the new tables and how employees who require RMDs will be affected.

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 2022 retirement account contribution limits, new IRS life expectancy tables, or any happenings that may affect your firm's benefit plan offerings, we're here to assist you.

Authored by the Retirement Consulting Services team at Commonwealth Financial Network.