

# Cost of Living Adjustments for 2025 are here!

On November 1, 2024, the IRS announced the Cost of Living Adjustments (COLAs) affecting the dollar limitations for retirement plans for 2025.

In October, the Social Security Administration announced a modest benefit increase of 2.5%. Retirement plan limits also increased over the 2024 limits. COLA increases are intended to allow participant contributions and benefits to keep up with the “cost of living” from year to year. Here are the highlights from the new 2025 limits:

- The calendar year elective deferral limit increased from \$23,000 to \$23,500.
- The elective deferral catch-up contribution remains \$7,500. This contribution is available to all participants aged 50 or older in 2025. An additional \$3,750 is available in 2025 for participants aged 60-63.
- The maximum available dollar amount that can be contributed to a participant’s retirement account in a defined contribution plan increased from \$69,000 to \$70,000. The limit includes both employee and employer contributions as well as any allocated forfeitures. For those over age 50, the annual addition limit increases to include catch-up contributions.
- The maximum amount of compensation that can be considered in retirement plan compliance has been raised from \$345,000 to \$350,000.
- Annual income subject to Social Security taxation has increased from \$168,600 to \$176,100.

Fall 2024

Annual Plan Limits	2025	2024	2023
<b>Contribution and Benefit Limits</b>			
Elective Deferral Limit	\$23,500	\$23,000	\$22,500
Catch-Up Contributions (age 50-59 and over 63)	\$7,500	\$7,500	\$7,500
Catch-Up Contributions (age 60-63)	\$11,250	—	—
Annual Contribution Limit	\$70,000	\$69,000	\$66,000
Annual Contribution Limit including Catch-Up Contributions (age 50-59 and over 63)	\$77,500	\$76,500	\$73,500
Annual Contribution Limit including Catch-Up Contributions (age 60-63)	\$81,250	\$76,500	\$73,500
Annual Defined Benefit Limit	\$280,000	\$275,000	\$265,000
<b>Compensation Limits</b>			
Maximum Plan Compensation	\$350,000	\$345,000	\$330,000
Income Subject to Social Security	\$176,100	\$168,600	\$160,200
Key EE Compensation Threshold	\$230,000	\$220,000	\$215,000
Highly Compensated EE Threshold	\$160,000	\$155,000	\$150,000
<b>IRA Limits</b>			
SIMPLE Plan Elective Deferrals	\$16,500	\$16,000	\$15,500
SIMPLE Catch-Up Contributions	\$3,500	\$3,500	\$3,500
Individual Retirement Account (IRA)	\$7,000	\$7,000	\$6,500
IRA Catch-Up Contribution	\$1,000	\$1,000	\$1,000

## Preventing Late Deposits

As the time approaches to complete your annual data collection, you may be asked if any deposits to the plan were not made in a timely manner.

Money withheld from a participant’s paycheck as pre-tax deferrals, Roth deferrals or loan repayments must be contributed to the 401(k) or 403(b) plan within the time frame specified by the Department of Labor (DOL). Although the exact requirements can vary depending on the plan, deposits must be made as soon as it is administratively feasible to do so.

### What does “as soon as administratively feasible” mean?

Essentially, this is the earliest date the money can be separated from company assets. Once you can access the withholdings, they should be deposited. Often, this is the actual pay date. While this is the go-to rule in most cases, smaller plans that start the year with fewer than 100 participants can take advantage of a safe harbor provision in which deposits can be considered timely so long as they are made within 7 business days of withholding. The best practice is to deposit your employees’ deferrals and loan repayments as soon as possible and to be consistent about what that entails. For example, if your processes and procedures allow the deposit to be made on the Monday following a Friday pay date, be sure to follow these same processes every pay period.

**Do these late deposit rules also apply to employer contributions?** No, employer contributions have different deposit rules. Check with your accountant for tax deduction timing.

**Why is this important?** Once the money is withheld from a participant's pay, it becomes a plan asset. The plan exists for the exclusive benefit of the plan participants. When the money stays in the company's account, it benefits the company instead of benefiting the participants. This is a prohibited transaction because it violates the exclusive benefit rule.

**Should I deposit deferrals before the pay date?** No, the deferrals and loan payments don't become plan assets until being withheld from the employee's paycheck. If the money is contributed to the plan prior to the pay date, the contribution is considered an employer contribution rather than an employee contribution. In addition, the employee contribution will need to be funded in a timely manner. An exception can be made when the individual who usually makes the deposit will be out of the office when the deposit is scheduled, but the situation should be well-documented in case questions arise in the future.

**How do I prevent late deposits?** The best way to prevent late deposits is to establish procedures and follow them. This should include comparing the amount withheld from payroll to the amount remitted to the plan, as sometimes participants are accidentally left off the contribution upload. In these cases, a simple reconciliation to payroll will prevent a late deposit. If you find you lack the necessary staff to consistently make deposits to the plan, it may be worthwhile to consider services provided by your accountant or payroll company which could handle this on your behalf.

**What happens if I make a late payment?** The participants will need to be made whole, as if the deposit was never late. The plan sponsor will need to compensate the appropriate participant account(s) with the lost earnings; and for 401(k) plans, a 15% excise tax on the lost earnings will need to be paid. In addition, the late deposits are listed on the Form 5500 and could trigger an audit. There is no minimum limit here, so even if the correction and excise tax are small amounts, the correction still needs to be made.

In summary, even when the correction itself is minor, the effects of a late deposit can be enormous. To avoid the possibility of repercussions, consider your current processes for making deposits to the plan and determine if any adjustments are needed to ensure that your deposits are timely.

## Higher Catch-Up Contribution Available in 2025

A catch-up contribution is available for plan participants starting in the year age 50 is reached. For these participants, the annual deferral limit can be exceeded by the catch-up amount. Keep the following in mind:

- The annual deferral limit is based on the participant's tax year; this is a calendar year limit, even if the plan year is an off-calendar plan year end.

- In order for a plan to accept a catch-up contribution, it must be permitted in the plan document.

For 2024, the deferral limit was \$23,000 and the catch-up contribution limit was \$7,500, for a total of \$30,500. For 2025, the deferral limit is \$23,500 and the catch-up contribution limit is \$7,500, for a total of \$31,000.

As part of SECURE 2.0, a higher catch-up contribution will be available beginning on January 1, 2025, so long as a plan has chosen to adopt the new provision. To take advantage of the higher contribution, a participant must be age 60 to age 63. This contribution stops being available during the calendar year in which the participant reaches age 64.

This means a participant aged 60-63 would have the option to defer \$34,750 in 2025 (\$23,500 deferral limit plus \$11,250 catch-up). If you decide to include this new provision for 2025, it's important to ensure the payroll provider can track this information and that the participants are aware of the option and complete the necessary election forms.

Those participants aged 50-59 and over 63 are still able to take advantage of the standard catch-up and can defer \$31,000 (\$23,500 plus \$7,500) for 2025.

## RMD Reminder

Required Minimum Distributions (RMD) should be paid by December 31 each year to participants who have reached age 73. However, a participant may elect to delay their first distribution until April 1 of the following year. If the first distribution is delayed, two distributions will be paid in the same year.

The plan document may allow participants who are currently employed to delay distributions until termination of employment, although participants who own more than 5% of the company that sponsors the plan are required to take their RMD regardless of employment status. If the participant has died, the distributions could be subject to grandfathered rules and distributions may be required even though the participant hadn't reached age 73.

RMDs are calculated by combining a life expectancy factor with the account balance on December 31 of the prior year. While the RMD is the minimum distribution that's needed, more can be withdrawn if requested by the participant and allowed by the plan document.

Retirement plans allow for the delayed taxation of money so that participants can save for retirement. While the intention of the plan is to benefit the participant directly, some individuals may incorporate them into estate planning to reduce their tax liability. For this reason, RMDs force money to be withdrawn from the plan so the government can collect the taxes that had been deferred. As of 2024, RMDs from Roth accounts are no longer required.

If the RMD isn't taken, excise taxes will need to be paid by the participant, and the plan could be subject to disqualification. For this reason, it's very important to identify when distributions are required and ensure they are issued on time.

Please contact us if you have any questions regarding RMDs for your participants.



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## Upcoming Compliance Deadlines for Calendar-Year Plans

### December 1st

**Participant Notices** – Annual notices due for Safe Harbor elections (note that some plans are no longer required to distribute Safe Harbor notices), Qualified Default Investment Arrangement (QDIA), and Automatic Contribution Arrangements (EACA or QACA).

### December 31st

**ADP/ACP Corrections** – Deadline for a plan to make ADP/ACP corrective distributions and/or to deposit qualified nonelective contributions (QNEC) for the previous plan year.

**Discretionary Amendments** – Deadline to adopt discretionary amendments to the plan, subject to certain exceptions (e.g., anti-cutbacks).

**Required Minimum Distribution (RMD)** – The first RMD may be delayed until April 1, 2025. The 2nd RMD, as well as subsequent distributions for participants already receiving RMDs, is due by December 31, 2024.

**Contribution Funding** – Final funding deadline for 2023 plan year end. See your tax advisor for the year of deductibility.

### January 31st

**IRS Form 945** – Deadline to file IRS Form 945 to report income tax withheld from qualified plan distributions made during the prior plan year. The deadline may be extended to February 10th if taxes were deposited on time during the prior plan year.

**IRS Form 1099-R** – Deadline to distribute Form 1099-R to participants and beneficiaries who received a distribution or a deemed distribution during the prior plan year.

**IRS Form W-2** – Deadline to distribute Form W-2, which must reflect the aggregate value of employer-provided employee benefits.