

Client Action Bulletin

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2020 COLAs for Retirement, Social Security, and Health Benefits

SUMMARY

The IRS has announced the cost-of-living-adjusted figures for retirement plan benefits for 2020. The Social Security Administration announced its 2020 changes in October based on the Consumer Price Index for the quarter ended September 2019 from the Bureau of Labor Statistics. The 2020 adjusted figures for high-deductible health plans (HDHPs) and health savings accounts (HSAs) included in this *Client Action Bulletin* were released by the IRS earlier this year and are provided here for convenience.

DISCUSSION

Retirement Benefits

The following summarizes the 2020 COLAs for retirement plans:

	2020	2019
Defined Benefit Plan Dollar Annuity Limit IRC §415(b)(1)(A)	\$230,000	\$225,000
Defined Contribution Plan Combined Limit IRC §415(c)(1)(A)	\$57,000	\$56,000
Defined Contribution Plan Elective Deferral Limit IRC §402(g)(1)	\$19,500	\$19,000
Government/Tax-Exempt Plans' Deferral Limit IRC §457(e)(15)	\$19,500	\$19,000
401(k)/403(b)/457 Plans' Age-50 "Catch-Up" Limit IRC §414(v)(2)(B)(i)	\$6,500	\$6,000
Annual Compensation Limit IRC §§401(a)(17), 404(l)	\$285,000	\$280,000
Highly Compensated Employee (HCE) Limit IRC §414(q)(1)(B)	\$130,000 (HCEs in 2021)	\$125,000 (HCEs in 2020)
Key Employee/Officer Compensation IRC §416(i)(1)(A)(i)	\$185,000	\$180,000

Defined Benefit Plan High-3-Year Compensation Limit

For participants who separated from service before 2020, the adjusted high-three-year compensation limitation for defined benefit plans (under IRC §415(b)(1)(B)) is computed by multiplying the participant's 2019 compensation limitation by 1.0176.

Social Security Program Adjustments

The Social Security Administration announced a 1.6% adjustment for 2020 benefits.

For 2020, the Social Security taxable wage base will increase to \$137,700, up from \$132,900 in 2019. The Social Security Old-Age, Survivors, and Disability Insurance (OASDI) tax rate remains at 6.2% on wages up to the \$137,700 wage base, capping 2020 OASDI taxes at \$8,537.40 assessed equally on both the employee and the employer.

The Medicare Hospital Insurance (HI) tax rate will remain at 1.45% on all wages, with only the employee portion of the Medicare HI tax remaining subject to an additional 0.9% tax on wages exceeding \$200,000. (The \$200,000 threshold is not subject to adjustments for inflation.)

An individual who attains Social Security normal retirement age of 66 in 2020 (i.e., born in 1954) will be eligible to commence unreduced Social Security benefits in 2020. People born prior to 1943 have a lower retirement age, and those born in 1955 or later will have a higher normal retirement age, with a maximum age of 67 for those born in 1960 and later. Other 2020 adjusted figures from the SSA include:

- The maximum amount that individuals may earn without a reduction in their 2020 Social Security benefits is \$4,050/month (\$48,600 annually) if they are receiving or will commence Social Security benefits in 2020 *and* have attained Social Security normal retirement age by the end of 2020.
- The maximum amount that individuals may earn without a reduction is \$1,520/month (\$18,240 annually) if they are receiving or will commence Social Security benefits in 2020 *and* have not attained Social Security normal retirement age by the end of 2020.
- The “bend points” – the dollar amounts in the Social Security Primary Insurance Amount (PIA) formula that is used to determine individual beneficiaries’ Average Index Monthly Earnings (AIME) – for 2020 will be \$960 and \$5,785. Thus, the Social Security monthly PIA formula will be 90% of the first \$960 of AIME, plus 32% of the AIME over \$960 and through \$5,785, plus 15% of the AIME over \$5,785.
- The “old law” contribution and benefit base, which is used to calculate the PBGC guaranteed amount, will be \$102,300, up from \$98,700 in 2019.
- The amount of earnings required for a quarter of coverage in 2020 will be \$1,410.
- The National Average Wage Index for 2018 is \$52,145.80.

Health Benefits

The maximum annual contribution for HSAs in 2020 will increase to \$3,550 (from \$3,500 in 2019) for an individual with self-only coverage under a HDHP, and will increase to \$7,100 (from \$7,000) for an individual with family coverage. In addition, persons aged 55 or older may make a catchup contribution of \$1,000 (which is set by law and not subject to adjustments for inflation) for 2020.

For 2020, HSA-eligible HDHPs must have an annual deductible of at least \$1,400 for self-only coverage (\$2,800 for family coverage), increasing from the 2019 amounts of \$1,350/\$2,700. The HDHP’s annual out-of-pocket expenses may not exceed \$6,900 for self-only coverage and \$13,800 for family coverage (increased from the 2019 amounts of \$6,750/\$13,500).

ACTION

Because many of the employee benefit plan limits for 2020 have changed from 2019, plan sponsors should verify that their administrative and payroll systems reflect the appropriate limits. Communications that specify the various retirement plan limits and other benefit program changes should be reviewed for accuracy before materials are given to participants. Retirement plans that are coordinated with Social Security benefits should also be reviewed for accuracy.

For additional information about the 2020 cost-of-living adjustments for retirement plans, Social Security benefits, and HSAs and HDHPs, please contact your Milliman consultant.

Other Recent Milliman Publications You May Be Interested in:

- ***Health and Group Benefits News and Developments, October 2019***
- ***Monthly Benefit News and Developments, October 2019***
- ***Pension Funding Index, October 2019***
- ***Multiemployer Pension Funding Study, Fall 2019***
- ***What can plan sponsors do with plummeting interest rates?*** This article presents perspectives on the challenges of the current interest rate environment.
- ***Market commentary, 3rd Quarter 2019*** Markets were mixed for the quarter as investors digested potential risks and opportunities in the market.
- ***Designing benefits packages that attract and retain employees*** In today's tight labor market, companies need to look beyond salary in order to attract and retain employees.
- ***How employers can address plan selection bias with risk adjustment*** Employers should adjust health plan options for morbidity in order to reduce the selection bias.
- ***Navigating two decades of funded status*** This paper examines the sources of funded status volatility seen over the past two decades and discusses how plan sponsors of defined benefit pension plans have adapted.
- ***Millennials and retirement: What do employers need to know?*** Employers may benefit from learning more about Millennials' changing relationship with retirement planning.



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