401(k) Limits Increased for 2023

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On October 21, 2022, the Internal Revenue Service issued the cost-of-living adjustments for contributions to 401(k) plans and other retirement plans. The cost-of-living increases are larger than the typical increases of recent years due to high inflation. The adjustments will enable participants in these plans to contribute more toward saving for retirement and will also result in increased costs for most employers.

Effective January 1, 2023, the limits are as follows:

- The employee annual deferral limit increased from $20,500 to $22,500.
- The limit for additional employee deferrals for participants age 50 or older ("catch-up contributions") increased from $6,500 to $7,500.
- As a result of the increases, participants who are age 50 or older for a plan year may annually contribute up to $30,000 on a pre-tax and/or Roth contribution basis.
- The annual maximum compensation that may be used for purposes of calculating retirement plan contributions increased from $305,000 to $330,000.
- The maximum annual contributions to a defined contribution retirement plan (like a 401(k) plan) for employee and employer contributions increased from $61,000 to $66,000.

Safe-Harbor Notices

Now that the new limitations have been issued, employers can update and send participants the annual Safe-Harbor Notice ("Notice"). The Notice must be given to participants in 401(k) plans that take advantage of rules that avoid some of the complicated testing and limitations that otherwise apply to 401(k) plans. The Notice must be given to participants at least 30 days before the end of the plan year but no earlier than 90 days before the plan year ends. Thus, the deadline for giving the 2023 Notice for calendar year plans is December 1, 2022.