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Dollar Limitations for 2020

Various retirement plan limits are subject to annual cost-of-living adjustments. The IRS has issued the limits for 2020. The adjustment to plan-related limits is always a reminder that the end of the year is fast approaching. Often, December 31 is a deadline to adopt plan amendments, implement changes in plan administration or take other actions related to your benefit plans. Some of the commonly applicable limits for 2020 are as follows:

2020 Retirement Plan Limits

Type of Limit	Amount	Note
Elective Deferrals Limit	$19,500	Increased from 2019 – Applies to 401(k), 403(b), and 457(b) deferrals
Catch-up Deferrals Limit	$6,500	Increased for the first time since 2015
Annual Additions Limit	$57,000	Increased from 2019 – Represents maximum employee + employer contributions (before catch-up contributions) to a 401(k), profit sharing or other defined contribution plan
Defined Benefit Plans Limit	$230,000	Increased from 2019 – Represents the maximum annual pension payable from a defined benefit plan
Annual Compensation Limit	$285,000	Increased from 2019 – Retirement plans generally may only recognize compensation up to this limit, which has the effect of limiting retirement plan accumulations for high-paid employees
Highly Compensated Employee ("HCE") Threshold	$130,000	Increased from 2019 – Employees with prior year compensation above this threshold are considered HCEs for purposes of plan nondiscrimination testing
Social Security Taxable Wage Base	$137,700	Increased from 2019 – This limit affects the way in which employer contributions are allocated to participants under "integrated" plans

Source: *IRS Notice 2019-59 (November 6, 2019) and corresponding Social Security Administration News Release (October 10, 2019)*

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Disaster Relief Distributions – 2019 Year-End Amendment May Be Required

If your plan allowed special distributions and distribution rules for participants that were affected by certain hurricane and wildfire disasters in 2017 and 2018, your plan must be amended to reflect these distribution changes by the end of the 2019 plan year.

Background:

In 2017, Congress passed legislation to assist victims of Hurricanes Harvey, Irma and Maria. 2018 legislation granted similar assistance to victims of certain California wildfires. The relief allowed defined contribution retirement plans to make immediate distributions of up to $100,000 to disaster victims without any early withdrawal penalties. The relief also allowed for repayments of those distributions and certain hardship distributions and increased loan limits and suspension of loan repayments.

Application:

If your plan had participants affected by any of these natural disasters and the plan allowed these special distributions or distribution rules, you must adopt a plan amendment by the end of the 2019 plan year (December 31, 2019 for a calendar-year plan). Please contact us immediately if you have any questions or think these rules may apply to your plan and participants.

Changes to Hardship Distributions

In September, the IRS released final regulations related to hardship distributions from 401(k) and other retirement plans. The final regulations enact various changes in the hardship distribution provisions, including changes in reaction to the Bipartisan Budget Act of 2018, the Tax Cuts and Jobs Act, and the proposed regulations from 2018. The Final Regulations include certain mandatory changes that retirement plan sponsors must make and other provisions that are permissive or optional. The various changes to your plan's hardship provisions may have different effective dates and implementation dates and potentially different amendment dates.

We have already started conversations with many clients about the planning and implementation process for these hardship changes. At this time, it is most important for plan sponsors and administrators to consider the mandatory changes that may be effective right away and the desired optional changes and start to prepare for the modifications in your plan administrative process to satisfy these new requirements. Plan amendments are not required immediately, and we expect to start preparing plan amendments in the first quarter of 2020 for many plans. Following is a high-level summary of some key provisions of the Final Regulations for 401(k) plans.

<u>Mandatory Changes</u>:

- Eliminate the six-month suspension of elective deferrals after a hardship distribution.
- Implementing the revised general standard for determining a participant's financial need for hardship that requires the participant to submit a written certification.

<u>Permissive or Optional Changes</u>:

- Participants are no longer required to first exhaust any available plan loans before a hardship distribution is available.
- The portion of a participant's account balance available for hardship distribution may now include: QNECs; QMACs; QACA contributions; and earnings on <u>all</u> elective deferrals.
- Optionally, any six-month suspension of deferrals that is in place at the time that rule is eliminated from the plan may be immediately cancelled.
- An expansion of the safe harbor list of hardship qualifying expenses to include:
    - certain expenses for the participant's primary beneficiary under the plan;
    - certain expenses relating to damage to a principal residence that qualifies as a casualty deduction under the Internal Revenue Code; and
    - certain expenses and losses of income related to a federally-declared disaster.

<u>Effective Dates</u>:

- The mandatory changes must be effective no later than for hardship distributions after January 1, 2020.

- Many other changes can be effective as early as the first day of the 2019 plan year – for example, if you implemented the changes administratively for any hardship distributions made in 2019.

- The changes relating to casualty and disaster expenses can be effective as early as January 1, 2018 (if these rules were administratively implemented under your plan).

<u>Amendment Dates</u>:

In recent informal guidance and comments, the IRS clarified that plan amendments related to the Final Resolutions <u>are not</u> required by December 31, 2019, or the end of the 2019 plan year. In some cases, the plan amendment deadline could be as late as mid-year 2021. At this point, we expect to be completing plan amendments for many clients in the first quarter of 2020, to be contemporaneous with the implementation of administrative changes in early 2020. Many of the plan document providers are already rolling out plan amendments.

<u>Important Administrative Effective Date</u>:

Regardless of the date your plan document is amended, what is most important is that you promptly begin to administer hardship distributions in compliance with the mandatory and desired optional changes.

Therefore, effective for hardship distributions no later than January 1, 2020:

- elective deferrals <u>should not</u> be suspended after the hardship distribution; and

- participants must provide a written certification of financial need.

If you choose to implement any of the optional changes, you may choose the effective date, but it may be advantageous to apply them to any hardship distributions made after January 1, 2020, so they have the same effective date as the mandatory changes.

For example, if participants are no longer required to obtain available plan loans before a hardship distribution or if the amounts available for hardship will include earnings on elective deferrals and/or the other permissible new sources, you should implement the necessary administrative changes right away. In our experience, those are two of the most obvious optional changes that sponsors choose to implement.