

Client Action Bulletin

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2021 COLAs for Retirement, Social Security, and Health Benefits

SUMMARY

The IRS has announced the cost-of-living-adjusted figures for [retirement plan benefits for 2021](#). The Social Security Administration also announced [its 2021 changes](#) based on the Consumer Price Index for the twelve-months ended September 30, 2020 from the Bureau of Labor Statistics.

The 2021 adjusted figures for [high-deductible health plans](#) (HDHPs) and health savings accounts (HSAs) were released by IRS in May 2020.

DISCUSSION

Retirement Benefits

The following summarizes the 2021 COLAs for retirement plans (**red-font** indicates a change from 2020):

	2021	2020
DEFINED BENEFIT PLAN DOLLAR ANNUITY LIMIT IRC §415(b)(1)(A)	\$230,000	\$230,000
DEFINED CONTRIBUTION PLAN COMBINED LIMIT IRC §415(c)(1)(A)	\$58,000	\$57,000
DEFINED CONTRIBUTION PLAN ELECTIVE DEFERRAL LIMIT IRC §402(g)(1)	\$19,500	\$19,500
GOVERNMENT/TAX-EXEMPT PLANS' DEFERRAL LIMIT IRC §457(e)(15)	\$19,500	\$19,500
401(k)/403(b)/457 PLANS' AGE-50 "CATCH-UP" LIMIT IRC §414(v)(2)(B)(i)	\$6,500	\$6,500
ANNUAL COMPENSATION LIMIT IRC §401(a)(17), 404(l)	\$290,000	\$285,000
HIGHLY COMPENSATED EMPLOYEE (HCE) LIMIT IRC §414(q)(1)(B)	\$130,000 (HCEs IN 2022)	\$130,000 (HCEs IN 2021)
KEY EMPLOYEE/OFFICER COMPENSATION IRC §416(i)(1)(A)(i)	\$185,000	\$185,000

Defined Benefit Plan High-3-Year Compensation Limit

For participants who separated from service before 2021, the adjusted high-three-year compensation limitation for defined benefit plans (under IRC §415(b)(1)(B)) is computed by multiplying the participant's 2020 compensation limitation by 1.0122.

Social Security Program Adjustments

The Social Security Administration announced a 1.3% adjustment for 2021 benefits.

The 2021 Social Security taxable wage base will increase to \$142,800, up from \$137,700 in 2020. The Social Security Old-Age, Survivors, and Disability Insurance (OASDI) tax rate remains at 6.2% on wages up to the \$142,800 wage base, capping 2021 OASDI taxes at \$8,853.60 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 the 1.3% adjustment for inflation.)

An individual who attains Social Security full (normal) retirement age (“SSNRA”) of 66 and 2 months in 2021 (i.e., born in 1955) will be eligible to commence unreduced Social Security benefits in 2021. People born prior to 1955 have a lower SSNRA, and those born in 1956 or later will have a higher SSNRA, with a maximum age of 67 for those born in 1960 and later. Other 2021 adjusted figures from the SSA include:

- \$3,148 per month (\$37,776 for calendar 2021): The 2021 maximum monthly Social Security benefit for a worker retiring at SSNRA is \$3,148.
- \$4,210 per month (\$50,520 for calendar 2021): For individuals who have attained SSNRA in 2021 by Dec. 31, 2021, the maximum monthly amount that individuals may earn without a reduction in their 2021 Social Security benefits is \$4,210. (See details on the [Exempt Amounts Under the Earnings Test](#).)
- \$1,580 per month (\$18,960 for calendar 2021): For individuals who have NOT attained SSNRA in 2021 by Dec. 31, 2021, the maximum monthly amount that individuals may earn without a reduction in their 2021 Social Security benefits is \$1,580.
- 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 2021 will be \$996 and \$6,002. Thus, the Social Security monthly PIA formula will be 90% of the first \$996 of AIME, plus 32% of the AIME over \$996 and through \$6,002, plus 15% of the AIME over \$6,002.
- The [National Average Wage Index for 2019](#) is \$54,099.99.

Health Benefits

The 2021 contribution and out of pocket expenses limits and minimum deductibles for Health Savings Accounts (HSAs) in a High Deductible Health Plan (HDHP) are (red-font indicates a change from 2020):

	2021	2020
ANNUAL CONTRIBUTION LIMIT TO AN HSA FOR SELF-ONLY COVERAGE IN A HDHP IRC §223(b)(2)(A)	\$3,600	\$3,550
ANNUAL CONTRIBUTION LIMIT TO AN HSA FOR FAMILY COVERAGE IN A HDHP IRC §223(b)(2)(B)	\$7,200	\$7,100
ANNUAL CONTRIBUTION LIMIT TO AN HSA FOR THE AGE-55 “CATCH-UP” IRC §223(b)(3)	\$1,000	\$1,000
ANNUAL MINIMUM DEDUCTIBLE FOR A HDHP FOR SELF-ONLY COVERAGE IRC §223(c)(2)(A)(i)(I)	\$1,400	\$1,400
ANNUAL MINIMUM DEDUCTIBLE FOR A HDHP FOR FAMILY COVERAGE IRC §223(c)(2)(A)(i)(II)	\$2,800	\$2,800
ANNUAL OUT-OF-POCKET EXPENSES LIMIT FOR A HDHP FOR SELF-ONLY COVERAGE IRC §223(c)(2)(A)(ii)(I)	\$7,000	\$6,900
ANNUAL OUT-OF-POCKET EXPENSES LIMIT FOR A HDHP FOR FAMILY COVERAGE IRC §223(c)(2)(A)(ii)(II)	\$14,000	\$13,800

ACTION

Since the employee benefit plan limits for 2021 have changed from 2020, 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 2021 cost-of-living adjustments for retirement plans, Social Security benefits, and HSAs and HDHPs, please contact your Milliman consultant.



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