



“Knowing the rules and remembering the rules are two completely different things.”

— Simon Travaglia

2013 INFLATION ADJUSTMENTS

Following recent announcements by both the IRS and the Social Security Administration, we now know most of the dollar amounts that employers will need to administer their benefit plans for 2013. Many of the new numbers are slightly higher than their 2012 counterparts. For instance, the annual 401(k), 403(b), or 457(b) deferral limit will increase from \$17,000 to \$17,500; the Section 415 limit on annual additions to a participant's account will go from \$50,000 to \$51,000; and the annual compensation limit will increase from \$250,000 to \$255,000. (The annual retirement plan catch-up contribution limit -- \$5,500 -- will remain unchanged for 2013.)

The annual compensation threshold used in identifying highly compensated employees (HCEs) remains unchanged for 2013 (at \$115,000). In identifying HCEs for 2013, employers should consider employees who earned at least \$115,000 during 2012 (as well as 5% owners during either 2012 or 2013). This is due to the "look-back" nature of the HCE definition.

The annual limit on IRA contributions (whether traditional or Roth) will increase from \$5,000 to \$5,500, while the annual limit on IRA catch-up contributions will remain at \$1,000.

The maximum contribution to an HSA will increase slightly -- from \$3,100 to \$3,250 for individual coverage, and from \$6,250 to \$6,450 for family coverage -- while the maximum HSA catch-up contribution will remain at \$1,000. The minimum deductible for any high-deductible health plan (which must accompany any HSA) will also increase slightly -- from \$1,200 to \$1,250 for individual coverage, and from \$2,400 to \$2,500 for family coverage.

A new \$2,500 limit on employee deferrals to health FSAs will apply for plan years beginning on or after January 1, 2013. This \$2,500 limit applies only to salary reduction contributions under a health FSA and *not* to employer contributions. For this purpose, however, any employer FSA contributions that could have been received in cash are treated as salary reduction contributions.

The Social Security taxable wage base will increase for 2013 -- from \$110,100 to \$113,700. A question yet to be answered is whether employees will continue to enjoy a temporary reduction in the long-standing 6.2% "OASDI" tax rate. For 2011 and 2012, that rate has been temporarily reduced by two percentage points (to 4.2%), as a way of helping to stimulate the economy. Although there does not appear to be significant sentiment in either of the major political parties to extend this reduction, there is a slight chance that the 4.2% rate will remain in effect for 2013. (In any event, the *employer* OASDI tax rate will remain at 6.2%.)

The Medicare tax rate has long been set at 1.45% -- for both employees *and* employers. Beginning in 2013, however, the *employee* Medicare tax rate will increase by 0.9% (to a total of 2.35%) on wages in excess of \$200,000 for single filers or \$250,000 for joint filers (\$125,000 for married individuals filing separately). Employers must start withholding this additional Medicare tax once an employee's Medicare wages have exceeded \$200,000. This additional Medicare tax does not apply to the employer's share.

To obtain a quick reference card listing the 2013 annual benefit plan amounts, please contact your UBA Member Firm.

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