

Get ready for 2016: Limits on 401(k), FSA and new exemption rates

2016 401(k) Contribution Limits

The IRS recently announced that contribution limits for 401(k) and 403(b) plans will remain unchanged in 2016. The cost-of-living index increase for 2016 does not reach the statutory threshold to warrant an increase in contribution limits. Employers should notify their employees of the limits for 2016 before the first payroll in 2016.

This chart shows the limits for 2016

Defined Contribution Plan Limits For 401(k), 403(b) and most 457 plans, there will be no cost of living adjustment (COLA) for dollar limits on benefits and contributions:	2016	2015
Maximum employee elective deferral	\$18,000	\$18,000
Employee catch-up contribution (if age 50 or older by year end)	\$6,000	\$6,000
Defined contribution maximum limit, all sources	\$53,000	\$53,000
Defined contribution maximum limit (if age 50 or older by year end) maximum contribution all sources plus catch-up	\$59,000	\$59,000
Employee compensation limit for calculating contributions	\$265,000	\$265,000
Compensation of "key employees" in a top-heavy plan	\$170,000	\$170,000
Compensation of "highly compensated employees" in a top-heavy plan (HCE threshold)	\$120,000	\$120,000

2016 Social Security Wage Base:

The Social Security Administration has announced that the wage base for Social Security taxes for 2016 will be \$118,000, also unchanged from 2015.

Health FSA, Parking, and Transit:

The IRS announced that the 2016 health FSA pre-tax plan year deduction limit will remain \$2,550, the same as 2015.

The 2016 Parking limit, effective for January, is adjusted to \$255 per month from \$250.

The 2016 Transit Benefit, including Van Pooling, remains \$130 per month.

Remember, addition, if an employer has adopted the up to \$500 rollover (carryover) for the health FSA, any amount that rolls over into the new plan year does not affect the election limit for 2016.

New Exemption Rates

California's Department of Industrial Relations (DIR) announced rate changes for the computer software employee exemption and the licensed physician or surgeon exemption. The new rates take effect January 1, 2016.

For the computer software employees' exemption:

- The minimum hourly rate of pay exemption increased to \$41.85 from its previous rate of \$41.27;
- The minimum monthly salary increased to \$7,265.43 from its previous rate of \$7,165.12; and
- The minimum annual salary exemption increased to \$87,185.14 from its previous rate of \$85,981.40.

For the licensed physician or surgeon exemption:

- The minimum hourly pay for licensed physicians and surgeons increased to \$76.24 from \$75.19.

The 2016 rate changes reflect the 1.4 percent increase in the CCPI.

Employers should ensure that any employees they have classified as exempt using either the computer software professionals exemption or the licensed physician or surgeon exemption are making at least the minimum wage requirements listed above for those exemptions.

If you have any questions or concerns about compliance with any of the above limits, call eqHR solutions for a consultation.

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Whenever you require HR advice or help navigating the ever-changing landscape of California and Federal Employment Laws and Regulations, call for a no obligation consultation.

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