2016 IRS Compensation and Contribution Limits

Who should read this notice
Finance directors, human resources and payroll professionals.

Situation overview
Each year, the Internal Revenue Service establishes two specific limits, the compensation limit and the contribution limit, about which employers should be knowledgeable. It is important to note that both limits are unchanged for 2016.

The compensation limit (threshold established by IRC section 401(a)(17)) is the amount beyond which no further retirement contributions may be deducted from an employee’s earnable salary for a given year. This limit applies to all OPERS members, regardless of their retirement plan enrollment.

The compensation limits for 2016 are:
- For employees or elected officials establishing OPERS membership on or after Jan. 1, 1994, the compensation limit for 2016 remains at $265,000.
- For employees or elected officials establishing OPERS membership prior to Jan. 1, 1994, the compensation limit for 2016 remains at $395,000. This limit is applied regardless of whether there has been a break in service or an account refund for previous service.

The contribution limit (threshold established by IRC section 415(c)(1)(A)) is the maximum amount an employee may contribute to a defined contribution plan. The IRS defines OPERS’ Member-Directed Plan as a qualified defined contribution plan.

The contribution limit to a defined contribution plan remains the lesser of 100 percent of an employee’s compensation or $53,000.
- Employee and employer contributions, additional deposits paid by the employee to OPERS, and service purchases are all included when applying the contribution limit.
- Certain contributions to the OPERS Traditional Pension Plan or Combined Plan may also be subject to this limit. These include mandatory contributions that are not picked up by the employer, Additional Annuity program contributions, and voluntary deposits to the Combined Plan.

What employers need to do
Monitor your records of each employee’s reported earnable salary to make sure you are only deducting and remitting contributions up to the maximums allowed by the IRS. To help with this effort, OPERS will also monitor reported earnable salary and contributions subject to these IRS guidelines. Please be aware that OPERS will contact you if any of your employees are nearing these limits.

Why this is important
Although these limits may affect only a small number of your employees, monitoring these IRS mandated limits is important because any retirement contributions deducted and remitted in excess of the limits will result in a refund and a delay to your employees of part of their salary. If an employee contribution is sent in error, OPERS will initiate the process to refund those contributions.

Whom to contact for more information
Questions or comments should be directed to OPERS Employer Services at 888-400-0965, or by e-mail at employeroutreach@opers.org.