

Mixed News on Retirement COLAs

With inflation all but nonexistent during the past year, cost of living adjustments for taxes and retirement savings programs are limited. In general, contribution limits -- including 401(k) plans and IRAs -- will not change for 2016. Social Security benefits for people who are already retired won't change either. But Medicare Part B premiums will increase significantly for some retirees. As for taxes, phase-out limits, tax brackets, and various exclusion amounts all inch upward marginally.

401(k) and IRA contribution limits will remain unchanged in 2016, at \$18,000 and \$5,500, respectively.

Every fall, the Internal Revenue Service (IRS) and the Social Security Administration announce their cost-of-living adjustments (COLAs) for the coming year. These affect how much you can contribute to your employer-sponsored retirement plan and IRA, your eligibility to contribute, and different thresholds and deductibles on your federal tax return. Other changes impact Social Security benefits and Medicare premiums.

For 2016, most changes are relatively minor. Contribution limits for 401(k)s, 403(b)s and 457 plans remain unchanged, as do those for IRAs. Income limits, however, increase. On the tax side, the standard deduction, personal exemption and certain other items rise slightly.

The following tables highlight the items that most commonly apply to plan participants and taxpayers:

Pension Plan Limitations

	2015	2016
401(k), 403(b) and 457 elective deferral limit	\$18,000	\$18,000
401(k), 403(b) and 457 catch-up contribution limit ¹	\$6,000	\$6,000
Total DC plan contribution for combined employer and employee	\$53,000	\$53,000
IRA contribution limit	\$5,500	\$5,500
IRA catch-up contribution limit ¹	\$1,000	\$1,000
Traditional IRA deduction income phase-out ranges.		

Mixed News on Retirement COLAs (continued)

Single/head of household and covered by a workplace plan	\$61,000-\$71,000	\$61,000-\$71,000
Married filing jointly and covered by a workplace plan	\$98,000-\$118,000	\$98,000-\$118,000
Those not covered by workplace plan but married to someone who is	\$183,000-\$193,000	\$184,000-\$194,000
Roth IRA contribution income phase-out ranges		
Single	\$116,000-\$131,000	\$116,000-\$131,000
Joint	\$183,000-\$193,000	\$184,000-\$194,000

¹For those age 50 or older.

Income Tax Items

	2015	2016
Standard deduction		
Single	\$6,300	\$6,300
Head of household	\$9,250	\$9,300
Joint	\$12,600	\$12,600
Income phase-out for itemized deductions		
Single	\$258,250-\$380,750	\$259,400-\$381,900

Mixed News on Retirement COLAs (continued)

Joint	\$309,900-\$432,400	\$311,300-\$433,800
Personal exemption	\$4,000	\$4,050
Alternative Minimum Tax (AMT) exemption		
Single	\$53,600	\$53,900
Joint	\$83,400	\$83,800
Earned Income Credit	\$6,242	\$6,269
Estate tax exclusion	\$5,430,000	\$5,450,000

Social Security COLAs

Social Security beneficiaries should expect the same-sized checks in 2016 as they received in 2015. That's because the average price level remained unchanged from one year ago. Of course some prices went down while others went up, so not everyone experienced zero inflation in their daily living expenses. Food, for example, costs more this year while gasoline costs less. You should look carefully at your budget for next year to determine how your spending needs might change.

Also, the lack of a COLA in Social Security benefits means that nearly three-quarters of pensioners will not be required to pay any increase in their Medicare Part B premiums. To help make up the forgone Medicare revenue, people with significant income apart from Social Security could see increases in their Part B premiums of up to 17% or so, a top level of about \$123 per month.

Looking Ahead

Keep in mind that the 2016 amounts apply to 2016 contributions and income, and are not applicable to tax returns for the 2015 tax year, which may be filed up to April 15, 2016. Also, there are other changes besides those highlighted above. Check out the links below for more information on other IRS cost-of-living increases.

Although little will change from 2015 to 2016, it is still a good idea to plan for the year ahead. Are you taking full advantage of the tax savings available to you through your employer-sponsored retirement savings plan? Will you be eligible for tax-deductible contributions to a traditional IRA or to contribute to a Roth IRA? Will your estimated income be high enough to trigger the AMT? The answers to these and other questions may be important in

formulating an effective tax and saving strategy. So work with your tax planner and financial advisor to make sure you are doing the most you can to minimize your tax bill.

[IRS Newswire IR-2015-119](#), October 21, 2015.

[IRS Newswire IR-2015-118](#), October 21, 2015.

[Social Security Cost of Living Adjustment Information for 2016](#)