

Retirement Plan COLAs, Taxes, and More -- An Update for 2017

Every fall, the Internal Revenue Service (IRS) and the Social Security Administration (SSA) announce their cost-of-living adjustments (COLAs) for the coming year. These changes may affect how much you can contribute to your employer-sponsored retirement plan and/or IRAs, as well as various other items related to your federal tax return. Other changes may impact your Social Security benefits.

Social Security beneficiaries should expect a modest 0.3% increase in the size of their checks in 2017, boosting the average monthly benefit of all retired workers from \$1,355 in 2016 to \$1,360 in January 2017.

For 2017, most changes are relatively minor. For instance, employee contribution limits for common defined contribution (DC) plans such as 401(k)s, 403(b)s, and most 457 plans remain unchanged, as do those for IRAs. Income ranges for determining eligibility to make deductible contributions to traditional IRAs, to contribute to Roth IRAs, and to claim the saver's credit all increase for 2017. Additionally, the standard deduction and certain other items rise slightly. The following tables highlight key items for plan participants and taxpayers:

Retirement Plan and IRA Limitations

	2016	2017
401(k), 403(b), and most 457 plans elective deferral limit	\$18,000	\$18,000
401(k), 403(b), and most 457 plans catch-up contribution limit ¹	\$6,000	\$6,000
IRA contribution limit	\$5,500	\$5,500
IRA catch-up contribution limit ¹	\$1,000	\$1,000
Traditional IRA deduction income phase-out ranges		
Those covered by workplace plan: Single/head of household	\$61,000-\$71,000	\$62,000-\$72,000
Married filing jointly	\$98,000-\$118,000	\$99,000-\$119,000
Those not covered by workplace plan but married to someone who is	\$184,000-\$194,000	\$186,000-\$196,000
Roth IRA contribution income phase-out range	\$117,000-\$132,000 (single) \$184,000-\$194,000 (joint)	\$118,000-\$133,000 (single) \$186,000-\$196,000 (joint)

Tax Items

	2016	2017
Standard deduction	\$9,300 (head of household) \$6,300 (single) \$12,600 (joint)	\$9,350 (head of household) \$6,350 (single) \$12,700 (joint)
Income (minimum) limit for itemized deductions	\$259,400 (single) \$311,300 (joint)	\$261,500 (single) \$313,800 (joint)
Personal exemption	\$4,050	\$4,050
Alternative Minimum Tax (AMT) exemption	\$53,900 (single) \$83,800 (joint)	\$54,300 (single) \$84,500 (joint)
Earned Income Credit	\$6,269	\$6,318
Saver's Credit income limit	\$46,125 (head of household) \$30,750 (single) \$61,500 (joint)	\$46,500 (head of household) \$31,000 (single) \$62,000 (joint)
Estate tax exclusion	\$5,450,000	\$5,490,000

Social Security COLAs

Social Security beneficiaries should expect a modest 0.3% increase in the size of their checks in 2017, boosting the average monthly benefit of all retired workers from \$1,355 in 2016 to \$1,360 in January 2017 -- and the maximum monthly benefit of workers retiring at full retirement age to \$2,687 from \$2,639. The latest Social Security cost-of-living increase is based on the increase in inflation as measured by the Consumer Price Index from the third quarter of 2014 through the third quarter of 2016. While the overall increase in inflation was minimal, and some prices went down while others went up, not everyone experienced the same changes in their daily living expenses. You should look carefully at your budget for next year to determine how your spending needs might change.

Looking Ahead

Although little will change from 2016 to 2017, 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 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

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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.

Keep in mind that the 2017 amounts apply to 2017 contributions and income, and they are not applicable to tax returns for the 2016 tax year. Also, there are other changes besides those highlighted above. Check out the links below for more information.

¹For those age 50 or older.

Sources:

Internal Revenue Service, ["In 2017, Some Tax Benefits Increase Slightly Due to Inflation Adjustments, Others Are Unchanged."](#) October 25, 2016.

Internal Revenue Service, ["IRS Announces 2017 Pension Plan Limitations: 401\(k\) Contribution Limit Remains Unchanged at \\$18,000 for 2017."](#) October 27, 2016.

Social Security Administration, Fact Sheet, ["2017 Social Security Changes."](#)