Winter 2020

VIEWpoint

MANAGEMENT COMPENSATION RESOURCES

Happy New Year/ Year-End/ Tax Season!

I hope this newsletter finds you well and managing your way through the year-end accounting and tax processes that engulf many of us this time of the year.

This is my first note since our big 20th anniversary piece last spring/summer – so there are a couple of things to catch-up on… *1)* I, of course, need to cover some politics since we are now into a Presidential election year!… and *2)* we've updated the new IRS tax / income limits for retirement plans, etc. in the chart shown below.

President Trump continues to govern in his own particular (and peculiar!?!) manner – and will not be opposed for the Republican nomination. The Democrats are having quite a time coming to grips with which direction the party wants to head – and who they think can be elected in November. And for good measure, the U.S. House of Representatives and 1/3 of the U.S. Senate are up for re-election as well. Given what we know and what we're hearing these days – my best guess is that we will still have some form of divided government come January of 2021. Here's why:

The House will probably remain controlled by the Democrats, irrespective of who wins the White House. The Senate is also unlikely to change over – meaning Republicans will probably keep their majority there. This leaves the White House as the "wild card" (current and/or future occupants being likely to fit that definition for the foreseeable future!). But no matter if we end up with another four years of President Trump; or if we instead get four years of President Biden (or Bloomberg, Klobuchar, or another Dem…) – the reality is that the House and Senate will continue to indirectly regulate one another and limit the type of legislation that will be able to pass.

The President can set a legislative tone and can certainly change the direction of regulations and judicial nominations – but major legislation will likely need to be bipartisan in the next Congress. (I wouldn't hold my breath waiting for that to happen!) All of this is actually good news for tax and retirement plan law, considering that nothing major is likely to happen. If a Democrat wins the White House, it is possible that marginal income tax rates could increase in 2021 or beyond for high-income earners in order to "pay for" some things; but wholesale tax changes or major rate increases are only likely if Democrats also win the Senate.

Enjoy the election season - and thank goodness for DVR / streaming services to help avoid those pesky political ads! Our best wishes for a happy and successful 2020 – however you choose to define that. If there is any way we can be of service to you and your company, please feel free to contact me.

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Qualified Plan Limits for 2020

The IRS has released its updated dollar limitations for tax-qualified defined benefit and defined contribution plans. Effective January 1, 2020. These limits are important for qualified, as well as many non-qualified plans.

Qualified Plan Limits

	2019	2020
Elective Deferrals [401(k) / 403(b) /457]	$ 19,000	$ 19,500
"Over 50" Catch-Up Contribution	$ 6,000	$ 6,500
Annual Defined Benefit Limit [415(b)]	$225,000	$230,000
Annual Defined Contribution Limit [415(c)]	$ 56,000	$ 57,000
Covered Compensation Limit [401(a)]	$280,000	$285,000
Highly Compensated Employee [414(q)]	$125,000	$130,000
Social Security Taxable Wage Base	$132,900	$137,700

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Don’t Believe Everything You Read ...

Especially when it comes to the strength of the economy or the status of the job market. The business and general media are repeatedly producing articles – based on U.S. government data – saying that wages are “barely growing” or that the “job market is stagnating.” But the stock markets are at record highs, corporate profits remain healthy, and we have record low unemployment by every possible measurement – so what’s driving the data dis-connect?

Our theory, and we dare say it is an educated one, is this: U.S. Department of Labor (DOL) statistics – like any statistics – can be used to paint just about any kind of scenario an author cares to write about. [Note to my college Stats professor… “see, I was listening!”] So when an article says wages are growing very slowly, what consideration has the author given to the impact of retirements on the data?

For instance – say an employee making $100,000 per year retires after a long career, and is replaced by someone promoted from within who gets a raise from $75,000 to $90,000 per year. The DOL data would measure a decline in wages for that job from $100,000 to $90,000, even though the new holder of that job just got a $15,000 raise! No one disputes that some areas of the economy are softer than others right now, but there is also no disputing the fact that record numbers of baby boomers continue to retire from full-time employment every month; and they are being replaced by less-experienced, and generally lower-paid workers. So take some of this economic “news” with a grain of salt unless the author acknowledges the retiree issue in their analysis and reporting.

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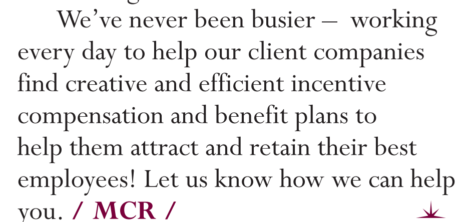
In the short term, this data “illusion” makes the economy look weaker than it really is. Over time, if increases in worker productivity don’t keep pace, it will start to reflect an economy that is actually shrinking if the retiring boomers can’t be replaced fast enough by the lesser-populated generations behind them. But even this impact is masked by a cultural shift that is becoming more apparent (and important) every day… younger generations aren’t solely motivated by more and more money. This reduces the pressure for actual cash compensation growth – while increasing expenditures for Paid Time Off, maternity / paternity leave, insurance benefits, and other “lifestyle perks” that often don’t show up in the DOL wage data. We don’t think that many studies or authors are factoring these key elements into their work.

OK, time for this economic rant to come to a close. Here is the bottom line: every client / company we talk to these days continues to echo the same messages heard in 2018 and 2019… finding and keeping their best employees is just as tough today as it was in 2017. The “war for talent” is still going strong - and unrelenting - as far we can tell.



We’ve never been busier – working every day to help our client companies find creative and efficient incentive compensation and benefit plans to help them attract and retain their best employees! Let us know how we can help you. **/ MCR /**

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