



# Identifying highly compensated employees

## An important definition for retirement plan nondiscrimination tests

### WHO'S CONSIDERED A HIGHLY COMPENSATED EMPLOYEE (HCE)?

Identifying an HCE is important for performing coverage and nondiscrimination testing that may apply to your tax-qualified retirement plan. An HCE is any employee who meets at least one of the following criteria:

- **Ownership:** The employee owned more than 5% of the business at any time during the current plan year or the prior year. Family attribution applies.
- **Compensation:** The employee's total compensation received in the prior plan year was more than the HCE threshold limits for a given year, as shown to the right.

If the top-paid group provision applies to your plan, the number of employees you can consider as HCE due to compensation may be limited. Your Client Services Manager can help you determine if this provision applies to your plan.

### Highly compensated employee thresholds

Plan year begins in	2023	2024	2025
Compensation limit	\$150,000	\$155,000	\$160,000

### FAMILY ATTRIBUTION\*\*

Who's considered an owner?

Family members can be deemed, through their relationship with someone who has an ownership interest, to share that same ownership interest.

This family attribution applies:

- Between spouses
- From parent to child
- From child to parent
- From grandchild to grandparent

However, family attribution doesn't apply from grandparent to grandchild or between siblings.

**Knowing the definition of a highly compensated employee can help you keep your retirement plan trouble-free. For further details or answers to your questions, please contact your Client Services Manager. We're here to help.**

**Please keep this fact sheet with your retirement plan records. See other side for the definition of a key employee.**





# Identifying key employees

## An important definition for retirement plan nondiscrimination tests

### WHO'S CONSIDERED A KEY EMPLOYEE?

Identifying a key employee is important for performing your plan's top-heavy test. Each year, key employees are identified (as of the determination date\*) as any employees who, at any time during the plan year, satisfied at least one of the following three criteria:

- **Ownership:** The employee owned more than 5% of the business. Family attribution applies.
- **Ownership and earnings:** The employee owned more than 1% of the business and their earnings exceeded \$150,000. Family attribution applies.
- **Officer and earnings:** The employee was an officer who earned more than the key employee compensation limit for the applicable year, as shown to the right.

### Key employee compensation thresholds

Plan year begins in	2023	2024	2025
Compensation limit	\$215,000	\$220,000	\$230,000

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However, family attribution doesn't apply from grandparent to grandchild or between siblings.

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\*The determination date is the last day of the preceding plan year. If it's the first year of your plan, the determination date will be the last day of the first year of your plan.

\*\*If you have a situation under the Family Attribution rules, you also must review the changes to the Family Attribution rules under the SECURE 2.0 Act that went into effect of January 1, 2024. The Act simplifies the coverage testing rules by removing two overrides to the spousal exception that make it easier for spouse with separate businesses to maintain tailored stand-alone plans to meet the goals of the respective business. The overrides include disregarding community property laws when determining if the spousal exception is met, and disregarding minor children if the spousal exception is met.

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