

IRS Announces Retirement Plan Limitations on Benefits and Contributions

November 6, 2009

On October 15, the Internal Revenue Service (IRS) announced in a news release (IR-2009-094) the cost-of-living adjustments to be applicable to dollar limitations for defined benefit pension and defined contribution plans and other items for tax year 2010.

Most limits remained unchanged from last year due to the fact that cost-of-living index for the quarter ended September 30, 2009 was less than the cost-of-living index for the quarter ended September 30, 2008.

By way of example, the Code Section 402(g)(1) limit on the exclusion for elective deferrals remained unchanged at \$16,500. This limitation affects elective deferrals to Section 401(k) plans and to the federal government's Thrift Savings Plan, among other plans.

Summary of the Changes

Below is a summary of the cost-of-living changes included in the IRS's announcement.

- Section 402(g)(1) (elective deferrals) remains the same at \$16,500
- Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) (compensation limit) remain unchanged at \$245,000
- Section 415(b)(1)(A) (limit for defined benefit plans) remains the same at \$195,000. For participants who separated from service before January 1, 2010, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2009, by 1.0000
- Section 415(c)(1)(A) (limit for defined contribution plans) remains unchanged at \$49,000
- Section 416(i)(1)(A)(i) (definition of key employee in a top-heavy plan) remains unchanged at \$160,000
- Section 409(o)(1)(C)(ii) (ESOP maximum) remains unchanged at \$985,000, and the dollar amount used to determine the lengthening of the five-year distribution period remains unchanged at \$195,000
- Section 414(q)(1)(B) (highly compensated employee definition) remains unchanged at \$110,000

- Section 414(v)(2)(B)(i) (catch-up contributions) remains unchanged at \$5,500
- Section 401(a)(17) (compensation limit for certain governmental plans) remains unchanged at \$360,000
- Section 408(k)(2)(C) (simplified employee pensions) remains the same at \$550
- Section 408(p)(2)(E) (SIMPLE retirement accounts) remains unchanged at \$11,500
- Section 457(e)(15) (government and tax-exempt deferred compensation) remains the same at \$16,500
- Section 1.61-21(f)(5)(i) (“control employee” fringe benefit valuation) remains the same at \$95,000

The IRS announcement also provided that several pension-related amounts are to be adjusted using the cost-of-living adjustment under Section 1(f)(3). These dollar amounts and the adjustments are as follows:

- Section 25B(b)(1)(A) (retirement savings contribution credit for married taxpayers filing a joint return) increased from \$33,000 to \$33,500; Section 25B(b)(1)(B) remains unchanged at \$36,000, and Sections 25B(b)(1)(C) and 25B(b)(1)(D) remain unchanged at \$55,500
- Section 25B(b)(1)(A) (retirement savings contribution credit for head of household) increased from \$24,750 to \$25,125; Section 25B(b)(1)(B) remains unchanged at \$27,000; and Sections 25B(b)(1)(C) and 25B(b)(1)(D) remain unchanged at \$41,625
- Section 25B(b)(1)(A) (retirement savings contribution credit for all other taxpayers) increased from \$16,500 to \$16,750; Section 25B(b)(1)(B) remains unchanged at \$18,000; and Sections 25B(b)(1)(C) and 25B(b)(1)(D) remain unchanged at \$27,750
- Section 219(g)(3)(B)(i) (determining deductible amount of an IRA contribution for taxpayers who are active participants filing a joint return or as a qualifying widow(er)) remains unchanged at \$89,000; Section 219(g)(3)(B)(ii) (all other taxpayers) increased from \$55,000 to \$56,000; and Section 219(g)(7)(A) (nonactive participant) increased from \$166,000 to \$167,000
- Section 408A(c)(3)(C)(ii)(I) (for determining maximum Roth IRA contribution for married taxpayers filing a joint return or for taxpayers filing as a qualifying widow(er)) increased from \$166,000 to \$167,000; Section 408A(c)(3)(C)(ii)(II) (adjusted gross income limitation for all other taxpayers) remains unchanged at \$105,000
- Section 219(b)(5)(A) (deductible amount for making qualified retirement contributions) remains unchanged at \$5,000

Employers should inform employees of the limits to the extent that the information could affect deferral election decisions. Employers should also consider the extent that employee communications may need to be updated to reflect the 2010 limits.

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