

## **IRS Announces Pension Plan Limitations On Benefits and Contributions for 2011**

**November 3, 2010**

On October 28, the Internal Revenue Service (IRS) announced in a news release (IR-2010-108) the cost-of-living adjustments applicable to dollar limitations for defined benefit pension and defined contribution plans and other items for tax year 2011.

Most limits remained unchanged from last year due to the fact that the cost-of-living index for the quarter ended September 30, 2010, while greater than the 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 Internal Revenue Code Section 402(g)(1) limit on the exclusion for elective deferrals remains 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. For participants who separated from service during 2010, the limitation under Section 415(b)(1)(B) for 2011 is computed by multiplying the participant's 2010 compensation by 1.0118 in order to reflect changes to the cost-of-living index from the quarter ended September 30, 2009 to the quarter ended September 30, 2010.
- 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 compensation amount under Section 1.61-21(f)(5)(iii) remains unchanged at \$195,000.

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 \$33,500 to \$34,000; Section 25B(b)(1)(B) increased from \$36,000 to \$36,500; and Sections 25B(b)(1)(C) and 25B(b)(1)(D) increased from \$55,500 to \$56,500.
- Section 25B(b)(1)(A) (retirement savings contribution credit for head of household) increased from \$25,125 to \$25,500; Section 25B(b)(1)(B) increased from \$27,000 to \$27,375; and Sections 25B(b)(1)(C) and 25B(b)(1)(D) increased from \$41,625 to \$42,375.
- Section 25B(b)(1)(A) (retirement savings contribution credit for all other taxpayers) increased from \$16,750 to \$17,000; Section 25B(b)(1)(B) increased from \$18,000 to \$18,250; and Sections 25B(b)(1)(C) and 25B(b)(1)(D) increased from \$27,750 to \$28,250.
- 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)) increased from \$89,000 to \$90,000; Section 219(g)(3)(B)(ii) (all other taxpayers) remains unchanged at \$56,000; and Section 219(g)(7)(A) (nonactive participant) increased from \$167,000 to \$169,000.
- 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 \$167,000 to \$169,000; Section 408A(c)(3)(C)(ii)(II) (adjusted gross income limitation for all other taxpayers) increased from \$105,000 to \$107,000.
- Section 219(b)(5)(A) (deductible amount for making qualified retirement contributions) remains unchanged at \$5,000.

If you have any questions concerning the information in this LawFlash, please contact any of the following Morgan Lewis attorneys:

**Chicago**

Brian D. Hector 312.324.1160 [bhector@morganlewis.com](mailto:bhector@morganlewis.com)

**Dallas**

Patti J. Hedgpeth 214.466.4132 [phedgpeth@morganlewis.com](mailto:phedgpeth@morganlewis.com)  
Riva T. Johnson 214.466.4107 [riva.johnson@morganlewis.com](mailto:riva.johnson@morganlewis.com)

**New York**

Craig A. Bitman 212.309.7190 [cbitman@morganlewis.com](mailto:cbitman@morganlewis.com)

**Philadelphia**

Robert L. Abramowitz 215.963.4811 [rabramowitz@morganlewis.com](mailto:r Abramowitz@morganlewis.com)  
Brian J. Dougherty 215.963.4812 [bdougherty@morganlewis.com](mailto:bdougherty@morganlewis.com)  
I. Lee Falk 215.963.5616 [ilfalk@morganlewis.com](mailto:ilfalk@morganlewis.com)  
Vivian S. McCardell 215.963.5810 [vmccardell@morganlewis.com](mailto:vmccardell@morganlewis.com)  
Steven D. Spencer 215.963.5714 [sspencer@morganlewis.com](mailto:sspencer@morganlewis.com)

**Pittsburgh**

Lisa H. Barton 412.560.3375 [lbarton@morganlewis.com](mailto:lbarton@morganlewis.com)  
John G. Ferreira 412.560.3350 [jferreira@morganlewis.com](mailto:jferreira@morganlewis.com)  
Lauren Bradbury Licastro 412.560.3383 [llicastro@morganlewis.com](mailto:llicastro@morganlewis.com)  
R. Randall Tracht 412.560.3352 [rtracht@morganlewis.com](mailto:rtracht@morganlewis.com)

**San Francisco**

Mark L. Mathis 415.442.1465 [mmathis@morganlewis.com](mailto:mmathis@morganlewis.com)

**Washington, D.C.**

Althea R. Day 202.739.5366 [aday@morganlewis.com](mailto:aday@morganlewis.com)  
Benjamin I. Delancy 202.739.5608 [bdelancy@morganlewis.com](mailto:bdelancy@morganlewis.com)  
David R. Fuller 202.739.5990 [dfuller@morganlewis.com](mailto:dfuller@morganlewis.com)  
Mary B. (Handy) Hevener 202.739.5982 [mhevener@morganlewis.com](mailto:mhevener@morganlewis.com)  
Gregory L. Needles 202.739.5448 [gneedles@morganlewis.com](mailto:gneedles@morganlewis.com)

**About Morgan, Lewis & Bockius LLP**

With 23 offices in the United States, Europe, and Asia, Morgan Lewis provides comprehensive transactional, litigation, labor and employment, regulatory, and intellectual property legal services to clients of all sizes—from global Fortune 100 companies to just-conceived startups—across all major industries. Our international team of attorneys, patent agents, employee benefits advisors, regulatory scientists, and other specialists—nearly 3,000 professionals total—serves clients from locations in Beijing, Boston, Brussels, Chicago, Dallas, Frankfurt, Harrisburg, Houston, Irvine, London, Los Angeles, Miami, Minneapolis, New York, Palo Alto, Paris, Philadelphia, Pittsburgh, Princeton, San Francisco, Tokyo, Washington, D.C., and Wilmington. For more information about Morgan Lewis or its practices, please visit us online at [www.morganlewis.com](http://www.morganlewis.com).

**IRS Circular 230 Disclosure**

To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be

used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein. For information about why we are required to include this legend, please see <http://www.morganlewis.com/circular230>.

This LawFlash is provided as a general informational service to clients and friends of Morgan, Lewis & Bockius LLP. It should not be construed as, and does not constitute, legal advice on any specific matter, nor does this message create an attorney-client relationship. These materials may be considered **Attorney Advertising** in some states.  
Please note that the prior results discussed in the material do not guarantee similar outcomes.

**© 2010 Morgan, Lewis & Bockius LLP. All Rights Reserved.**

