



## Legal Alert: IRS Announces 2012 Cost-of-Living Increases to Pension Plan Limits

10/20/2011

On October 20, 2011, the Internal Revenue Service announced cost of living adjustments affecting various limitations applicable to pension and other retirement plans (IR 2011-103). Many of the limitations remain unchanged because they are indexed in \$1000 or \$5000 increments, but several will change for 2012. Some of the better-known limitations are:

- The limitation on elective deferrals (salary reduction contributions) under 401k, 403(b), and most 457(b) plans, as well as the federal government's Thrift Savings Plan, is increased from \$16,500 to \$17,000.
- The limit on "catch-up contributions" for those who are age 50 and over remains unchanged at \$5,500.
- The limit on compensation that may be taken into account under a plan is \$250,000, up from \$245,000.
- The overall limitation on "annual additions" to a participant's account under a defined contribution plan is increased from \$49,000 to \$50,000.
- The basic limitation on the annual benefits under a defined benefit plan is increased from \$195,000 to \$200,000.
- The dollar threshold for determining who is a "highly compensated employee" is increased to \$115,000, from \$110,000.
- The limitations applicable to SIMPLE and SEP plans (other than the \$250,000 compensation limitation) are unchanged.
- The phase-out of deductions for IRA contributions will occur between \$58,000 and \$68,000 of AGI (previously \$56-66,000) for single individuals and unmarried heads of household who are covered by an employer's retirement plan; for married couples filing joint returns, the phase-out occurs between \$92,000 and \$112,000 of AGI (previously \$90-110,000) where the contributing spouse is covered by an employer's plan, or between \$173,000 and \$183,000 (previously \$169-179,000) where only the noncontributing spouse is covered by an employer's plan.
- The phase-out for taxpayers making contributions to a Roth IRA is from \$173,000 to \$183,000 (previously \$169-179,000) for married couples filing jointly, and from \$110,000 to \$125,000 (previously \$107-122,000) for

unmarried individuals. (For married individuals filing a separate return and who are covered by an employer's retirement plan, the phase-out range remains at \$0 to \$10,000.)

- The dollar threshold for determining which officers are "key employees" in a top heavy plan is increased to \$160,000.
- The Social Security Taxable Wage Base increases to \$110,100 from \$106,800.

A complete list of the indexed limitations, as well as a history of the changes since 1989, can be found at [http://www.irs.gov/pub/irs-tege/cola\\_table.pdf](http://www.irs.gov/pub/irs-tege/cola_table.pdf).

If you have any questions regarding the new limitations, please feel free to contact the author of this Legal Alert, Jeffrey Ashendorf, [jashendorf@fordharrison.com](mailto:jashendorf@fordharrison.com), any member of Ford & Harrison's Employee Benefits Practice Group or the Ford & Harrison attorney with whom you usually work.