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IRS Releases Update on COLA Figures for Pension Plans

On October 15, 2009, the Internal Revenue Service announced, the 2010 dollar limitation adjustments for various pension provisions. <http://www.irs.gov/newsroom/article/0,,id=214321,00.html>

Many of the pension provisions in the Internal Revenue Code are subject to dollar limitations, and many of those limitations are subject to annual adjustments for cost-of-living increases. Since 1993 those COLA adjustments have been based on the prior year's third-quarter figures so that the adjustments are now announced well before the beginning of the next calendar year. In addition, most of the adjustments occur only when the cost-of-living increases accumulate to minimum threshold amounts specified in each applicable statutory provision.

Maximum Benefit and Contributions Limits for 2004 – 2010

IRS Limits	2004	2005	2006	2007	2008	2009	2010
Annual Addition Limit or Defined Benefit Plans	\$165,000	\$170,000	\$175,000	\$180,000	\$185,000	\$195,000	\$195,000
Annual Addition Limits for Defined Contribution Plans	\$41,000	\$42,000	\$44,000	\$45,000	\$46,000	\$49,000	\$49,000
Limit on Pre-Tax Salary Deferrals to Pension Plans a.k.a. "401(k) Limit"	\$13,000	\$14,000	\$15,000	\$15,500	\$15,500	\$16,500	\$16,500
SIMPLE Plan Contribution Limit	\$9,000	\$10,000	\$10,000	\$10,500	\$10,500	\$11,500	\$11,500
Catch-Up Contributions	\$3,000	\$4,000	\$5,000	\$5,000	\$5,000	\$5,500	\$5,500
SIMPLE Catch-Up Contributions	\$1,500	\$2,000	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
Highly Compensated Employee Dollar Limitation	\$90,000	\$95,000	\$100,000	\$100,000	\$105,000	\$110,000	\$110,000
Key Employees in Top-Heavy Plans	\$130,000	\$135,000	\$140,000	\$145,000	\$150,000	\$160,000	\$160,000
Limit on Compensation Taken Into Account in Pension Plans	\$205,000	\$210,000	\$220,000	\$225,000	\$230,000	\$245,000	\$245,000
Social Security Wage Base	\$87,900	\$90,000	\$94,200	\$97,500	\$102,000	\$106,880	\$106,880
IRAs	\$4,000	\$4,000	\$4,000	\$4,000	\$5,000	\$5,000	\$5,000

As published by the Internal Revenue Service

1. **Annual Addition Limit for Defined Benefit Plans.** This limitation is used to determine the current maximum funding for defined benefit plans, based on an annual straight life benefit at age 65 equal to the lesser of 100% of the average annual compensation, or \$160,000. (The dual defined benefit and defined contribution limit was repealed effective January 1, 2002, so plan sponsors can fund both a defined benefit and a defined contribution plan to their full individual limits). This limit increased to \$165,000 in 2004; \$170,000 in 2005; \$175,000 in 2006; to \$180,000 in 2007; and to \$185,000 in 2008. **In 2009 it increased to \$195,000, and there is no change in 2010.**
2. **Annual Addition Limits for Defined Contribution Plans.** Since the enactment of EGTRRA, defined contribution plans have been subject to an “annual addition” for each participant that cannot exceed 100% of compensation, or \$40,000. The \$40,000 statutory limit increased to \$41,000 in 2004; \$42,000 in 2005, \$44,000 in 2006; to \$45,000 in 2007; and to \$46,000 in 2008. **In 2009 it increased to \$49,000, and there is no increase in 2010.**
3. **Limit on Pre-Tax Salary Deferrals to Pension Plans.** Organizations that provide for salary deferrals into section 401(k) plans, section 403(b) arrangements and “eligible” section 457 plans are subject to in 2003; \$13,000 in 2004; \$14,000 in 2005; \$15,000 in 2006; \$15,500 in 2007 and 2008. **In 2009 it increased to \$16,500, and there is no change in 2010.**
4. **SIMPLE Plan Contribution Limit.** The statutory limit on contributions to SIMPLE plans under Revenue Code section 408(p)(2)(A) was \$7,000. This amount increased to \$8,000 in 2003; \$9,000 in 2004; \$10,000 in 2005 and 2006; and to \$10,500 in 2007 and 2008. **This limit increase to \$11,500 in 2009, and there is no change in 2010.**
5. **Catch-Up Contributions.** The additional qualified plans catch-up contribution which is allowed for individuals age 50 and over increased from \$2,000 to \$3,000 in 2004 and to \$4,000 in 2005. In 2006, 2007 and 2008, it increased to \$5,000. For 2009 this will go up to \$5,500. In addition, the catch-up contribution for SIMPLE IRAs and SIMPLE 401(k) plans increased from \$2,000 to \$2,500 for 2006, 2007, 2008 and 2009. **This limit will remain unchanged at \$2,500 for 2010.**
6. **Highly Compensated Employee Dollar Limitation.** The dollar limit for determining who is a highly compensated employee under section 414(q) remained at \$90,000 in 2002, 2003 and 2004. This amount increased to \$95,000 in 2005, to \$100,000 in 2006 and 2007 and to \$105,000 for 2008. **In 2009 it increased to \$110,000, and there is no change in 2010.**
7. **Key Employees in Top-Heavy Plans.** In determining who is a key employee under top-heavy plans, section 416(i) includes officers with compensation greater than \$130,000. That dollar limitation increased to \$135,000 in 2005; to \$140,000 in 2006; \$145,000 in 2007 and to \$150,000 for 2008. **In 2009 the limit increased to \$160,000, and there is no change in 2010.**
8. **Limit on Compensation Taken Into Account in Pension Plans.** Before 2004, the maximum amount of compensation that could be taken into account for qualified plan purposes was \$200,000. That limit increased to \$205,000 in 2004; \$210,000 in 2005; \$220,000 in 2006; \$225,000 in 2007; and \$230,000 in 2008. **In 2009 it increased to \$245,000, and there is no change in 2010.**
9. **Social Security Wage Base.** It is also important to note that the Social Security **wage base remains \$106,800.**
10. **IRAs.** The limit on IRA contributions remained at \$4,000 through 2007. It went to \$5,000 starting in 2008 and, **beginning in 2009, the IRA contribution limit became subject to annual COLA adjustments.**

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