

Client Alert

A report
for clients
and friends
of the firm

October 2005

Pension Plan Limits for 2006

The Internal Revenue Service recently announced the dollar limitations applicable to qualified pension and profit-sharing plans effective January 1, 2006 and the cost-of-living adjustments applicable to dollar limitations for these plans for 2006. This Client Alert outlines the new limits.

- The limit on the exclusion for elective deferrals under Code Section 402(g)(1), which includes deferrals under qualified cash-or-deferred arrangements (i.e., 401(k) plans), is increased from \$14,000 to \$15,000.
- The Code Section 403(b) elective deferral limit is increased from \$14,000 to \$15,000.
- The Code Section 457 deferral limit is increased from \$14,000 to \$15,000.
- The annual compensation limit under Code Sections 401(a)(17), 408(k)(3)(c), 408(k)(6)(D)(ii) and 404(l) is increased from \$210,000 to \$220,000.
- The limitation used in the definition of highly compensated employee under Code Section 414(q)(1)(B) is increased from \$95,000 to \$100,000.
- The maximum limitation for the annual benefit under Code Section 415(b)(1)(A) for defined benefit plans is increased from \$170,000 to \$175,000.
- The limitation for the annual addition under Code Section 415(c)(1) for defined contribution plans is increased from \$42,000 to \$44,000.
- The limitation under Code Section 416(i)(1)(A)(i) concerning the definition of key employee in a top heavy plan is increased from \$135,000 to \$140,000.
- The amount under Code Section 409(o)(1)(C)(ii) for determining the maximum account balance subject to the lengthened distribution period for tax credit employee stock ownership plans (ESOPs) is increased from \$850,000 to \$885,000 while the amount used to determine the lengthening of the distribution period is increased from \$170,000 to \$175,000.
- The maximum salary deduction amount under Code Section 408(p)(2)(E), regarding the savings incentive match plans (SIMPLE plans), remains unchanged at \$10,000.
- The limit on catch-up contributions for individuals aged 50 or over is increased from \$4,000 to \$5,000 (for SIMPLE plans, the limit on catch-up contributions is increased from \$2,000 to \$2,500).

A summary chart of these and other limits for 2006 and prior years is set forth on the reverse side.

We will be pleased to answer any questions you may have on the foregoing.

SUMMARY OF YEAR 2006 BENEFITS LIMITS

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
■ SIMPLE compensation amount	\$6,000	\$6,500	\$7,000	\$8,000	\$9,000	\$10,000	\$10,000
■ 401(k) dollar limit	\$10,500	\$10,500	\$11,000	\$12,000	\$13,000	\$14,000	\$15,000
■ 403(b) dollar limit	\$10,500	\$10,500	\$11,000	\$12,000	\$13,000	\$14,000	\$15,000
■ 457 dollar limit	\$8,000	\$8,500	\$11,000	\$12,000	\$13,000	\$14,000	\$15,000
■ Catch-up limit (for plans other than SIMPLE Plans)	—	—	\$1,000	\$2,000	\$3,000	\$4,000	\$5,000
■ Defined benefit limit	\$135,000	\$140,000	\$160,000	\$160,000	\$165,000	\$170,000	\$175,000
■ Defined contribution limit	\$30,000	\$35,000	\$40,000	\$40,000	\$41,000	\$42,000	\$44,000
■ Highly compensated threshold	\$85,000	\$85,000	\$90,000	\$90,000	\$90,000	\$95,000	\$100,000
■ Compensation limit	\$170,000	\$170,000	\$200,000	\$200,000	\$205,000	\$210,000	\$220,000
■ Social Security withholding							
■ (OASDI Wage Base)	\$72,200	\$80,400	\$84,900	\$87,000	\$87,900	\$90,000	\$94,200
■ (OASDI Rate)	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
■ (Medicare Wage Base)	unlimited	unlimited	unlimited	unlimited	unlimited	unlimited	unlimited
■ (Medicare Rate)	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%

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Client Alert

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