

Client Alert

Year 2002 COLA Benefits Limits

The Internal Revenue Service recently announced the Year 2002 dollar limitations applicable to qualified pension and profit-sharing plans effective January 1, 2002 under the Economic Growth and Tax Relief Reconciliation Act of 2001 and the cost-of-living adjustments applicable to dollar limitations for these plans for 2002. This Client Alert outlines the new limits as well as the Pension Benefit Guaranty Corporation's ("PBGC") maximum guaranteed benefit for 2002.

- 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 \$10,500 to \$11,000 for 2002.
- The Code Section 403(b) elective deferral limit is also increased from \$10,500 to \$11,000 for 2002.
- The Section 457 deferral limit is increased from \$8,500 to \$11,000 for 2002.

A report
for clients
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of the firm

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- The annual compensation limit under Code Section 401(a)(17) and Code Section 404(l) is increased from \$170,000 to \$200,000 for 2002.
- The maximum limitation for the annual benefit under Code Section 415(b)(1)(A) for defined benefit plans is increased from \$140,000 to \$160,000. This limit will no longer be reduced for benefits commencing between age 62 and 65.
- The limitation for the annual addition under Code Section 415(c)(1) for defined contribution plans is increased from the lesser of \$35,000 or 25% of compensation to the lesser of \$40,000 or 100% of compensation for 2002.
- The dollar amounts under Code Section 409(o)(1)(C)(ii) for the lengthened distribution period for tax credit employee stock ownership plans (ESOPs) are respectively increased from \$155,000 and \$780,000 to \$160,000 and \$800,000.
- The maximum salary deduction amount under Code Section 408(p)(2)(E), regarding the savings incentive match plans (SIMPLE plans), is increased from \$6,500 to \$7,000.
- The PBGC's maximum guaranteed benefit for 65 year old retirees in an underfunded single-employer defined benefit plan terminating in 2002 is \$3,579.55 per month or \$42,954.60 annually; this amount is increased from \$3,392.05 monthly or \$40,704.60 annually.

A summary chart of these and other limits for 2002 and prior years is set forth on the reverse side.

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

SUMMARY OF YEAR 2002 BENEFITS LIMITS

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
■ SIMPLE compensation amount	\$6,000	\$6,000	\$6,500	\$7,000
■ 401(k) dollar limit	\$10,000	\$10,500	\$10,500	\$11,000
■ 403(b) dollar limit	\$10,000	\$10,500	\$10,500	\$11,000
■ 457 dollar limit	\$8,000	\$8,000	\$8,500	\$11,000
■ Defined benefit limit	\$130,000	\$135,000	\$140,000	\$160,000
■ Defined contribution limit	\$30,000	\$30,000	\$35,000	\$40,000
■ Highly compensated threshold	\$80,000	\$85,000	\$85,000	\$90,000
■ Compensation limit	\$160,000	\$170,000	\$170,000	\$200,000
■ Social Security withholding				
■ (OASDI Wage Base)	\$72,600	\$76,200	\$80,400	\$84,900
■ (OASDI Rate)	6.20%	6.20%	6.20%	6.20%
■ (Medicare Wage Base)	unlimited	unlimited	unlimited	unlimited
■ (Medicare Rate)	1.45%	1.45%	1.45%	1.45%
■ PBGC Maximum Annual Benefit		\$38,659.08	\$40,704.60	\$42,954.60

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Client Alert

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