

Client Alert

A report
for clients
and friends
of the firm

November 2004

Year 2005 COLA Benefits Limits

The Internal Revenue Service recently announced the Year 2005 dollar limitations applicable to qualified pension and profit-sharing plans effective January 1, 2005 and the cost-of-living adjustments applicable to dollar limitations for these plans for 2005. 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 \$13,000 to \$14,000 for 2005.
- The Code Section 403(b) elective deferral limit is increased from \$13,000 to \$14,000 for 2005.
- The Code Section 457 deferral limit is increased from \$13,000 to \$14,000 for 2005.
- The annual compensation limit under Code Section 401(a)(17) and Code Section 404(l) is increased from \$205,000 to \$210,000 for 2005.
- The limitation used in the definition of highly compensated employee under Code Section 414(q)(1)(B) is increased from \$90,000 to \$95,000.
- The maximum limitations for the annual benefit under Code Section 415(b)(1)(A) for defined benefit plans is increased from \$165,000 to \$170,000.
- The limitation for the annual addition under Code Section 415(c)(1) for defined contribution plans is increased from \$41,000 to \$42,000.
- The dollar limitation under Code Section 416(i)(1)(A)(i) concerning the definition of key employee in a top heavy plan is increased from \$130,000 to \$135,000.
- The dollar 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 \$830,000 to \$850,000 while the dollar amount used to determine the lengthening of the distribution period is increased from \$165,000 to \$170,000.
- The maximum salary deduction amount under Code Section 408(p)(2)(E), regarding the savings incentive match plans (SIMPLE plans), is increased from \$9,000 to \$10,000 for 2005.
- The limit on catch-up contributions for individuals aged 50 or over is increased from \$3,000 to \$4,000 (for SIMPLE plans, the limit on catch-up contributions is increased from \$1,500 to \$2,000).

A summary chart of these and other limits for 2005 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 2005 BENEFITS LIMITS

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

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