

IRS Releases 2012 Limitations for Pension and Welfare Benefit Plans

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For the first time since 2008, the IRS has announced increases in many of the limits associated with qualified retirement plans. The Internal Revenue Code provides for an annual cost of living adjustment to dollar limits found in the Code when the cost of living increase meets certain thresholds. However, in recent years, the cost of living had decreased or had not been sufficient to trigger an increase in the limits.

Beginning in 2012, the following dollar limits for qualified retirement plans will be increased:

- Elective deferral (contribution) limits for employees participating in 401(k) plans, 403(b) plans, and most 457 plans is increased from \$16,500 to \$17,000. (Note the catch-up contribution limit remains unchanged at \$5,500.)
- The limitation for annual allocations to participants in defined contribution plans is increased from \$49,000 to \$50,000.
- The annual compensation limit under Code Section 401(a)(17) (upon which benefits/deferrals may be based) is increased from \$245,000 to \$250,000.
- The annual benefit limitation for defined benefit plans is increased from \$195,000 to \$200,000.
- To be a "highly compensated employee" in 2012, 2011 compensation must be at least \$115,000 (up from \$110,000).
- The limitation used to define "key employee" in a top-heavy plan is increased from \$160,000 to \$165,000.
- The social security taxable wage base is \$110,100 in 2012 (up from \$106,800).
- The maximum account balance in an employee stock ownership plan subject to a five-year distribution period is increased from \$985,000 to \$1,015,000.

In addition to the limits associated with qualified retirement plans, the IRS announced changes in limits affecting welfare benefit plans, most notably the reduction in the monthly limit for the mass transit qualified transportation fringe benefit. Since 2009, the mass transit and monthly parking benefit limits have each been set at \$230 a month. In 2012, the Code Section 132(f) monthly parking dollar limit will increase to \$240, but the mass transit benefit limit will go down significantly to \$125, as it reverts back to 2009 levels as adjusted for inflation because of the expiration of certain provisions of the American Recovery and Reinvestment Act. For adoption assistance, the IRS has set the maximum amount



excludable from income for employer-provided adoption assistance at \$12,650 (down from \$13,360). The excludable amount is subject to annual income-based phase-out.

Various other Code limitations have also been adjusted. For additional information or for a list of all of the 2012 IRS cost of living adjustments, please contact John D. Martini, Dennis R. Bonessa, Dodi Walker Gross, David N. Pardys, Rachel C. Shim, Kelly L. Bley, or your Reed Smith attorney.

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