

## **MOST RETIREMENT PLAN LIMITS INCREASE FOR 2005 - SOME BY COLA, SOME BY STATUTE**

IRS has announced the 2005 cost-of-living adjustments (COLAs) for retirement plans. Many of the limits applicable to pension and other retirement plans increase for 2005. For some of the limits, the increase in the cost-of-living index met the statutory thresholds which trigger their adjustment. Also, several limits, set by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), are scheduled to increase at the beginning of 2005.

### ■ **COLA increased limits for 2005**

The following plan limits are increased for inflation effective January 1, 2005:

#### ● **Defined benefit plans**

The limitation on the annual benefit under a defined benefit plan under Code Sec. 415(b)(1)(A) increases from \$165,000 to \$170,000. For participants who separated from service before 2005, the 100% of average high-three-years' compensation limit under Code Sec. 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2004, by 1.0273.

#### ● **Defined contribution plans**

The limit on annual additions to a participant's defined contribution account under Code Sec. 415(c)(1)(A) increases from \$41,000 to \$42,000.

#### ● **Annual compensation limit**

The maximum amount of annual compensation which can be taken into account for various qualified plan purposes, including Code Sec. 401(a)(17), Code Sec. 404(l), Code Sec. 408(k)(3)(C) and Code Sec. 408(k)(6)(D)(ii), increases from \$205,000 to \$210,000.

#### ● **ESOP five-year distribution period**

The dollar amount under Code Sec. 409(o)(1)(C)(ii) for determining the maximum account balance in an ESOP subject to a five-year distribution period increases from \$830,000 to \$850,000, while the dollar amount used to determine the lengthening of the five-year distribution period increases from \$165,000 to \$170,000.

#### ● **Control employee**

The employee compensation amount used in the definition of "control employee" for purposes of the auto commuting valuation rule of Reg. §§ 1.61-21(f)(5)(iii)

increases from \$165,000 to \$170,000. The compensation amount used in the definition of company officers who are ineligible for the commuting valuation rule of Reg. §1.61-21(f) increases from \$80,000 to \$85,000.

- **Compensation limit on grandfathered government plans**

The annual limit for certain government plans which, under the plan as in effect on July 1, 1993, allowed COLA adjustments to the plan's compensation limit under Code Sec. 401(a)(17) to be taken into account, increases from \$305,000 to \$315,000.

- **Key employee in top-heavy plan**

The dollar limit under Code Sec. 416(i)(1)(A)(i) concerning the definition of a key employee in a top-heavy plan increases from \$130,000 to \$135,000.

- **Highly compensated employee**

The dollar limit used in defining a highly compensated employee under Code Sec. 414(q)(1)(B) is increased from \$90,000 to \$95,000.

- **Limits increased by statute**

The Code, as amended by EGTRRA, specifies the applicable dollar limit applicable to certain retirement plans effective January 1, 2005, as follows:

- **Elective deferrals**

The limit on the exclusion for elective deferrals under Code Sec. 402(g)(3), which applies to 401(k) plans, 403(b) annuities, SEPs and the Federal government's Thrift Savings Plan, increases from \$13,000 to \$14,000. The increase to \$14,000 also applies to the limit on deferrals for deferred compensation plans of state and local governments and tax-exempt organizations under Code Sec. 457(e)(15).

- **SIMPLE salary deferral**

The maximum amount of compensation an employee may elect to defer under Code Sec. 408(p)(2)(E) for a SIMPLE plan increases from \$9,000 to \$10,000.

- **Catch-up contributions for those age 50 or over**

The dollar limit under Code Sec. 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan (other than a SIMPLE Code Sec. 401(k)(11) or a regular Code Sec. 408(p) SIMPLE plan) for individuals aged 50 or over increases from \$3,000 to \$4,000. For SIMPLE Code Sec. 401(k)(11) or regular Code Sec. 408(p) SIMPLE plans, the catch-up amount for individuals aged 50 or over increases from \$1,500 to \$2,000.

- **Unchanged limit**

The following limit is unchanged:

- *SEP compensation qualification.* The amount of annual compensation above which an employee who meets other requirements must be able to participate in an employer's SEP plan remains at \$450.

This Hot Topic is an informative publication for our clients and friends of the Firm. It is designed to provide accurate information on the subject matter covered. We recommend you consult with your legal and other advisors to determine if the information is applicable in your specific circumstances. If these advisors are not available to you, please feel free to contact Barry N. Finkelstein, CPA at 972/934-1577 or e-mail at [info@facpa.com](mailto:info@facpa.com).