

# Cooley

November 1, 2011

## Adjusted Limits

The Internal Revenue Service has announced the 2012 limits that affect the operation of tax-qualified retirement plans, including 401(k) plans, and certain other types of employee benefit plans, including deferred compensation plans that may be subject to Internal Revenue Code §409A. The amount by which the limits are adjusted each year is based on a cost of living index. Please see the accompanying table for the limits that are effective January 1, 2012.

## Social Security

The Social Security (OASDI) taxable wage base, which governs the amount of pay subject to Social Security tax withholding and affects plans that are "integrated" with Social Security, also is subject to adjustment annually. For 2012, the OASDI taxable wage base has been increased to \$110,100. The Medicare tax, however, applies to all wages without limit.

2012 ADJUSTED LIMITS	
Provision	2012 Limit
Maximum 401(k) Contributions	\$17,000
Maximum Compensation Limit	\$250,000
Highly Compensated Employees <i>Earning (in previous year) more than</i>	\$115,000
Key Employee Limit	\$165,000
Annual Contribution Limit for Defined Contribution Plans	\$50,000
Annual Benefit Limit for Defined Benefit Plans	\$200,000 <sup>1</sup>
SIMPLE Plan Limit	\$11,500

2012 ADJUSTED LIMITS	
Provision	2012 Limit
Age 50 and Older Catch-Up Contribution Limit	
<i>All plans other than SIMPLE Plans</i>	\$5,500
<i>SIMPLE Plans</i>	\$2,500
Annual Contribution Limit for Section 457 Deferred Compensation Plans (government and tax-exempt organizations)	\$17,000
ESOP:	
<i>Maximum account balance subject to five-year distribution period</i>	\$1,015,000
<i>Each dollar amount of account balance in excess of \$915,000 that adds one year to distribution period</i>	\$200,000
Simplified Employee Pension Plans (SEPs)	
<i>Contributions must be made for employees earning at least</i>	\$550
409A Maximum Specified Employee (Officer) Compensation Requirement	\$165,000
409A Involuntary Separation Pay Exception	\$500,000

If you have questions about this *Alert*, please contact a member of your Cooley team or one of the attorneys from the Compensation & Benefits Group listed above.

## NOTES

1 Note that the limit on benefits payable to a defined benefit plan participant for a particular year is the lesser of (i) the Annual Benefit Limit for Defined Benefit Plans for that year and (ii) 100% of the participant's average compensation for his high three years. For 2012, the Annual Benefit Limit for such participant is \$200,000. However, such participant's "average compensation" limit is adjusted due to the variance in the cost of living indexes over the past few years. For a participant who separated from service before 2010, the "average compensation" limit for 2012 is computed by multiplying the participant's 2011 "average compensation" limit by 1.0327. For a participant who separated from service during 2010 or 2011, the "average compensation" limit for 2012 is computed by multiplying the participant's 2011 "average compensation" limit by 1.0376.

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