

# Cooley

November 2, 2010

## Adjusted Limits

The Internal Revenue Service has announced the 2011 limits that affect the operation of tax-qualified retirement plans, including 401(k) plans, and certain other types of employee benefit plans. The amount by which the limits are adjusted each year is based on a cost of living index. While that cost of living index increased over the past twelve months, it was still below that index twenty-four months ago. Accordingly, the 2011 limits generally are at the same dollar amounts as the 2010 limits. Please see the accompanying table for the limits that are effective January 1, 2011.

## 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 2011, the OASDI taxable wage base remains unchanged at \$106,800. The Medicare tax, however, applies to all wages without limit.

2011 ADJUSTED LIMITS	
Provision	2011 Limit
Maximum 401(k) Contributions	\$16,500
Maximum Compensation Limit	\$245,000
Highly Compensated Employees <i>Earning (in previous year) more than</i>	\$110,000
Key Employee Limit	\$160,000
Annual Contribution Limit for Defined Contribution Plans	\$49,000
Annual Benefit Limit for Defined Benefit Plans	\$195,000 <sup>1</sup>

2011 ADJUSTED LIMITS	
Provision	2011 Limit
SIMPLE Plan Limit	\$11,500
Age 50 and Older Catch-Up Contribution Limit <i>All plans other than SIMPLE Plans</i> <i>SIMPLE Plans</i>	\$5,500 \$2,500
Annual Contribution Limit for Section 457 Deferred Compensation Plans (government and tax-exempt organizations)	\$16,500
ESOP: <i>Maximum account balance subject to five-year distribution period</i> <i>Each dollar amount of account balance in excess of \$915,000 that adds one year to distribution period</i>	\$985,000 \$195,000
Simplified Employee Pension Plans (SEPs) <i>Contributions must be made for employees earning at least</i>	\$550

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

## 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 the participant's high 3 years. For 2011, the Annual Benefit Limit for such participant is \$195,000. However, such participant's "average compensation" limit is calculated a bit differently for 2011 because of variance in the cost of living indexes over the past few years. For a participant who separated from service during 2010, the "average compensation" limit for 2011 is computed by multiplying the participant's 2010 "average compensation" limit by 1.0118. For all other participants, the "average compensation" limit is unchanged.

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## Key Contacts

Tom Reicher San Francisco	treicher@cooley.com +1 415 693 2381
David Walsh Reston	dwalsh@cooley.com +1 703 456 8021
Thomas Welk San Diego	twelk@cooley.com +1 858 550 6016

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