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# Benefits InfoSource

## Bulletin

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## IRS Cost of Living Adjustments for 2010

The Internal Revenue Service has announced annual cost-of-living adjustments applicable to pension and profit sharing plans, effective January 1, 2010. In accordance with legislative guidelines, these limitations are adjusted annually to reflect changes in the cost-of-living. The guidelines are similar to those used to adjust Social Security benefits.

After much speculation within the retirement plan community, the Internal Revenue Service has announced that the 2010 limits will remain unchanged from 2009 levels. This is because the cost-of-living index for the calendar quarter which ended September 30, 2009 is less than that for the calendar quarter which ended September 30, 2008. In accordance with Social Security procedures for adjusting benefit amounts, any decline in the applicable index cannot result in a reduction in the limitation amounts.

**Qualified Plans Maximum Compensation Limit.** The limit on compensation for purposes of calculating contributions and benefits under qualified retirement plans remains unchanged at \$245,000.

**Defined Benefit Plans.** The maximum annual benefit under a defined benefit pension plan under Code Section 415(b)(1)(A) remains unchanged at \$195,000. For participants who separated from service prior to January 1, 2010, the limitation under Code Section 415(b)(1)(B) is determined by multiplying the participant's compensation limitation, as adjusted through 2009, by 1.0000.

**Defined Contribution Plans.** The dollar limit on annual additions (i.e., all contributions and forfeitures) for participants in defined contribution plans remains unchanged at \$49,000. The annual addition limitation is the lesser of 100% of an individual's compensation or \$49,000. This limitation is not applicable to catch-up contributions.

**Highly Compensated Employees.** The Highly Compensated Employee ("HCE") threshold remains unchanged at \$110,000. To determine the HCE group for nondiscrimination testing, total compensation during the 12-month period preceding the current plan year (the "look-back" year) is used. Total compensation paid to an employee for the look-back year is measured against the highly compensated threshold in effect for the look-back year. Accordingly, the \$110,000 threshold will apply when 2009 is the look-back year and also when 2010 is the look-back year.

**Key Employee in Top-Heavy Plans.** In determining whether an employee is a "key employee" for top-heavy purposes, the dollar limit for determining officer status remains unchanged at \$160,000.

**401(k)/403(b)/457(b) Plans.** The maximum annual elective salary deferral and designated Roth contribution under a 401(k), 403(b), or 457(b) plan remains unchanged at \$16,500.

**Catch-up Contributions.** 401(k), 403(b), and governmental 457(b) plans may permit participants who are age 50 or older by the end of 2010 to make annual catch-up contributions. Catch-up contributions are generally not subject to limitations on the maximum annual elective deferral or other plan limits. The maximum catch-up contribution allowed remains unchanged at \$5,500.

**Social Security Wage Base.** The Social Security Administration announced that the wage base remains at \$106,800 for 2010.

### IRS and Social Security Limits and Thresholds on Benefits and Compensation

	2010	2009	2008	2007	2006
Qualified plan maximum compensation limit	\$245,000	\$245,000	\$230,000	\$225,000	\$220,000
Defined benefit maximum annual pension benefit	\$195,000	\$195,000	\$185,000	\$180,000	\$175,000
Defined contribution maximum annual addition	\$49,000	\$49,000	\$46,000	\$45,000	\$44,000
Highly compensated employee threshold	\$110,000	\$110,000	\$105,000	\$100,000	\$100,000
Key employee-officer compensation threshold for top-heavy plans	\$160,000	\$160,000	\$150,000	\$145,000	\$140,000
401(k)/403(b)/457(b) gov't deferred comp plan maximum elective deferral*	\$16,500	\$16,500	\$15,500	\$15,500	\$15,000
Catch-up contribution limit	\$5,500	\$5,500	\$5,000	\$5,000	\$5,000
Social Security wage base	\$106,800	\$106,800	\$102,000	\$97,500	\$94,200

\*limit not applicable to catch-up contributions

Please contact your USI representative if you have any questions. ■