

Retirement and Pension Plans / Cost of Living Adjustments

December 17, 2010

The I.R.S. has recently issued its annual cost-of-living adjustments applicable in 2011 to qualified retirement (pension, profit-sharing, § 401(k), money purchase and stock bonus) plans. Generally, there has been such a low rate of inflation in the nation's economy that many of these cost-of-living adjustments will remain unchanged.

In 2011, the maximum amount of annual compensation which may be considered for any single employee participating in such a retirement plan remains unchanged at \$245,000. The aggregate annual limit on employer and employee contributions to a retirement plan on behalf of a single employee likewise remains unchanged in 2011 at a level of \$49,000 for defined contribution (profit-sharing, § 401(k) and money purchase) plans. Further, the maximum annual benefit which may be funded under a defined benefit pension plan (based on actuarial computations) remains unchanged in 2011 at a level of \$195,000.

The maximum annual salary reduction contribution available to a single employee under a § 401(k) plan remains unchanged in 2011 at a level of \$16,500 and the extra catch-up contribution available to individuals aged 50 or over also remains unchanged in 2011 at a level of \$5,500. In addition, § 401(k) plans permitting after-tax Roth contributions will accept such contributions up to the same respective \$16,500 and \$5,500 catch-up levels as an alternative to pre-tax salary reduction contributions. Further, in determining the group of "highly compensated employees" in 2011 for purposes of testing retirement plans under the nondiscrimination rules, the group will continue to include 5% owners and employees in the top 20% highest paid group who earn a salary of more than \$110,000.

With respect to the simplified incentive match plan for employees ("SIMPLE") retirement accounts, the maximum annual salary reduction contribution available for a single employee in 2011 will remain at a level of \$11,500. As to the comparable simplified employee pension ("SEP") retirement account, employers will continue to be required in 2011 to cover all employees over age 21 who have worked for the employer for 3 of the last 5 years, and who are paid more than an annual salary of \$550.

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