

# 2012 Cost of Living Adjustments for Retirement Plans

By Keith A. Dropkin

October 27, 2011

The Internal Revenue Service recently announced its cost-of-living adjustments applicable to dollar limitations for retirement plans and Social Security generally effective for Tax Year 2012 (see [IR 2011-103](#)). Notably, the limitation on annual salary deferrals into a 401(k) plan will increase from \$16,500 to \$17,000. The dollar limits are as follows:

LIMIT	2011	2012
<b>401(k)/403(b) Elective Deferral Limit (IRC § 402(g))</b> The annual limit on an employee's elective deferrals to a 401(k) or 403(b) plan made through salary reduction.	\$16,500	\$17,000
<b>Government/Tax Exempt Deferral Limit (IRC § 457(e)(15))</b> The annual limit on an employee's elective deferrals concerning Section 457 deferred compensation plans of state and local governments and tax-exempt organizations.	\$16,500	\$17,000
<b>401(k)/403(b)/457 Catch-up Limit (IRC § 414(v)(2)(B)(i))</b> In addition to the regular limit on elective deferrals described above, employees over the age of 50 generally can make an additional "catch-up" contribution not to exceed this limit.	\$5,500	\$5,500
<b>Defined Contribution Plan Limit (IRC § 415(c))</b> The limitation for annual contributions to a defined contribution plan (such as a 401(k) plan or profit sharing plan).	\$49,000	\$50,000
<b>Defined Benefit Plan Limit (IRC § 415(b))</b> The limitation on the annual benefits from a defined benefit plan.	\$195,000	\$200,000
<b>Annual Compensation Limit (IRC § 401(a)(17))</b> The maximum amount of compensation that may be taken into account for benefit calculations and nondiscrimination testing.	\$245,000 (\$360,000 for certain gov't plans)	\$250,000 (\$375,000 for certain gov't plans)
<b>Highly Compensated Employee Threshold (IRC § 414(q))</b> The definition of an HCE includes a compensation threshold for the <i>prior</i> year. A retirement plan's discrimination testing is based on coverage and benefits for HCEs.	\$110,000 (for 2012 HCE determination)	\$115,000 (for 2013 HCE determination)
<b>Key Employee Compensation Threshold (IRC § 416)</b> The definition of a key employee includes a compensation threshold. Key employees must be determined for purposes of applying the top-heavy rules. Generally, a plan is top-heavy if the plan benefits of key employees exceed 60% of the aggregate plan benefits of all employees.	\$160,000	\$165,000

## Meet the Author



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## Practices

Employee Benefits

**SEP Minimum Compensation Limit (IRC § 408(k)(2)(C))**

The mandatory participation requirements for a simplified employee pension (SEP) includes this minimum compensation threshold.

	\$550	\$550
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**SIMPLE Employee Contribution (IRC § 408(p)(2)(E))**

The limitation on deferrals to a SIMPLE retirement account.

	\$11,500	\$11,500
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**SIMPLE Catch-up Limit (IRC § 414(v)(2)(B)(ii))**

The maximum amount of catch-up contributions that individuals age 50 or over may make to a SIMPLE retirement account or SIMPLE 401(k) plan.

	\$2,500	\$2,500
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<b>Social Security Taxable Wage Base</b>	\$106,800	\$110,100
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