

IRS Announces Employee Benefit Plan Limits for 2012

October 25, 2011

The Internal Revenue Service (IRS) recently announced 2012 cost-of-living adjustments to the applicable dollar limits for various employer-sponsored retirement and welfare plans. Plan sponsors should update payroll and plan administration systems accordingly and should incorporate the new limits in relevant participant communications. Because 2012 marks the first year the IRS has increased employee benefit plan limits since 2009, plan sponsors also may want to consider updating plan documents to include the new cost-of-living adjustments, to the extent such adjustments are not automatically incorporated by cross-reference.

The Internal Revenue Service (IRS) recently announced the cost-of-living adjustments to the applicable dollar limits on various employer-sponsored retirement and welfare plans for 2012. Although many dollar limits currently in effect for 2011 will change, some limits will remain unchanged for 2012. Earlier this year, the IRS announced new limits for 2012 relating to high deductible health plans (HDHPs) and health savings accounts (HSAs). The table below compares the applicable dollar limits for 2011 and 2012 for certain employee benefit programs.*

RETIREMENT PLAN LIMITS	2012	2011
Annual compensation limit	\$250,000	\$245,000
401(k), 403(b) & 457(b) before-tax contributions	\$17,000	\$16,500
Catch-up contributions (if age 50 or older)	\$5,500	\$5,500
Highly compensated employee threshold	\$115,000	\$110,000
Key employee officer compensation threshold	\$165,000	\$160,000
Defined benefit plan annual benefit and accrual limit	\$200,000	\$195,000
Defined contribution plan annual contribution limit	\$50,000	\$49,000
ESOP limit for determining the lengthening of the general five-year distribution period	\$200,000	\$195,000
ESOP limit for determining the maximum account balance subject to the general five-year distribution period	\$1,015,000	\$985,000
HEALTH AND WELFARE PLAN LIMITS		
Qualified Transportation Fringe Benefits		
Monthly limit for qualified parking	\$240	\$230

Monthly limit for transportation in a commuter highway vehicle or transit pass	\$125	\$230**
Adoption Assistance Programs		
Excludible amount	\$12,650	\$13,360**
<i>Phase-out modified adjusted gross income thresholds</i>		
Phase-out begins	\$189,710	\$185,210
Phase-out complete	\$229,710	\$225,210
HDHP and HSA		
<i>HDHP—Maximum annual out-of-pocket limit (excluding premiums)</i>		
Self-only coverage	\$6,050	\$5,950
Family coverage	\$12,100	\$11,900
<i>HDHP—Minimum annual deductible</i>		
Self-only coverage	\$1,200	\$1,200
Family coverage	\$2,400	\$2,400
<i>HSA—Annual contribution limit</i>		
Self-only coverage	\$3,100	\$3,050
Family coverage	\$6,250	\$6,150
Catch-up contributions (age 55 or older)	\$1,000	\$1,000

Plan sponsors should update payroll and plan administration systems for the new 2012 cost-of-living adjustments and should incorporate the new limits in relevant participant communications, like open enrollment materials and summary plan descriptions. Also, because 2012 marks the first year the IRS has increased employee benefit plan limits since 2009, plan sponsors may want to consider updating plan documents to include the new cost-of-living adjustments, to the extent such adjustments are not automatically incorporated by cross-reference.

For further information about applying the new IRS employee benefit plan limits for 2012, contact any of our employee benefits lawyers, or an author.

*Dollar limits are generally applied on a calendar year basis; however, certain dollar limits are applied on a plan year, tax year or limitation year basis.

**The temporary increase in the income exclusion for this benefit is currently scheduled to expire on December 31, 2011.

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