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Internal Revenue Service

2010 Cost of Living Adjustments Announced

On October 15, 2009, the Internal Revenue Service released Information Release 2009-94, <http://www.irs.gov/newsroom/article/0,,id=214321,00.html>, announcing that cost-of-living adjustments would not be made to certain dollar limits for retirement plans, generally effective January 1, 2010. The IRS has also updated the chart *COLA Increases for Dollar Limitations on Benefits and Contributions*, which includes the COLAs for 2003-2010. <http://www.irs.gov/retirement/article/0,,id=96461,00.html>

The 2010 dollar limits are as follows:

Limit	2009	2010
Defined Benefit Plans		
The maximum dollar limitation for annual benefits under defined benefit plans under Internal Revenue Code (IRC) Section 415(b)(1)(A). EGTRRA amended this limitation for annual benefits to the lesser of \$160,000 (as adjusted for inflation) or 100% of the participant's average compensation for his high 3 years.	\$195,000	\$195,000
Defined Contribution Plan 415 dollar limit		
The dollar limitation for annual additions under defined contribution plans under IRC Section 415(c)(1)(A). EGTRRA amended this limitation on annual additions, which is the lesser of \$40,000 (as adjusted for inflation) or 100% of compensation.	\$49,000	\$49,000
401(k)/403(b)/Existing SARSEP Elective Deferral Limit		
The limitation on cumulative elective deferrals to a 401(k), 403(b) tax deferred annuity, simplified employee pension, and SIMPLE retirement plan in a tax year, as coordinated under IRC Section 402(g)(1).	\$16,500	\$16,500

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<u>Limit</u>	<u>2009</u>	<u>2010</u>
<p>457 Deferral Limits</p> <p>The limitation on deferrals to 457 plans under IRC Section 457(e)(15). EGTRRA amended this contributions limitation under an eligible 457 deferred compensation plan to be the lesser of 100 % of includible compensation or the year's applicable dollar limit.</p>	\$16,500	\$16,500
<p>403(b) Catch-up limit</p> <p>The special catch-up election for employees participating in a 403(b) tax deferred annuity who have had at least 15 years of service with an educational organization, hospital, home health agency, health and welfare service agency, church or convention or association of churches.</p> <p><i>Note: This additional 403(b) catch-up of up to \$3,000 per year cannot exceed cumulatively \$15,000 over the lifetime of the 403(b) participant.</i></p>	\$19,500	\$19,500
<p>457 Catch-up limit</p> <p>The special catch-up election for employees participating in an eligible 457 deferred compensation who have elected the special catch-up available in the three years prior to the year of normal retirement age.</p> <p><i>Note: The participant in a governmental 457(b) plan may make catch-up contributions in a year equal to the greater of (a) the amount permitted under the age 50+ catch-up rule and (b) the amount permitted under the normal retirement age catch-up rule.</i></p>	\$33,000	\$33,000
<p>Age 50+ Catch-up Limits</p> <p>The special catch-up available under Internal Revenue Code (IRC) Section 414(v) for individuals at least 50 years old in 2010 and make eligible pre-tax contributions to 401(k), 403(b), and governmental 457 plans.</p>	\$5,500	\$5,500
<p>The special catch-up is available for individuals who are at least 50 years old in 2010 and make eligible pre-tax contributions to a SIMPLE plan.</p>	\$2,500	\$2,500
<p>Definition of Key Employee</p> <p>The compensation threshold used for determining key employees under IRS Section 416(i)(1)(A)(i).</p>	\$160,000	\$160,000
<p>Definition of Highly Compensated Employees</p> <p>The compensation threshold used for determining highly compensated employees under IRC Section 414(q)(1)(B).</p>	\$110,000	\$110,000

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<u>Limit</u>	<u>2009</u>	<u>2010</u>
Compensation Limit		
The annual limit of compensation that may be taken into account for contribution purposes in accordance with IRC Section 401(a)(17) (nongovernmental plan sponsors).	\$245,000	\$245,000
The annual limit of compensation that may be taken into account for contribution purposes in accordance with IRC Section 401(a)(17) (governmental plan sponsors).	\$360,000	\$360,000
Adjusted Gross Income Limit for Saver's Credit		
The highest adjusted gross income (based on federal income tax filing status) taken into account for eligibility for the Saver's Credit.	\$55,500 (joint) \$27,750 (single) \$41,625 (head of household)	\$55,500 (joint) \$27,750 (single) \$41,625 (head of household)
SIMPLE Retirement Accounts		
Compensation taken into account that an employee may elect to defer under a SIMPLE retirement plan described in IRC Section 408(p)(2).	\$11,500	\$11,500
Compensation for SEPs		
Compensation taken into account to determine eligibility for simplified employee pensions (SEPs).	\$550	\$550

New IRS Web Site Considers Life Changes

The IRS has introduced a new web site that provides employees with information about the impact of life events. <http://www.irs.gov/retirement/article/0,,id=211119,00.html> Along with supplying general background information on eligibility, vesting, investing, retirement and death, the web site provides links to explanations about the following events that may occur in a retirement plan participant's life:

- Marries or has children
- Becomes disabled
- Divorces
- Spouse dies
- Is laid off, quits or terminates employment

In addition, information is available if the employer:

- Terminates the plan
- Switches to another type of plan
- Declares bankruptcy
- Merges with another company

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Department of Labor

Employee Benefits Security Administration Provides Additional Guidance on Schedule C Reporting for 2009 Form 5500

On October 23, 2009, the Employee Benefits Security Administration (EBSA) released additional guidance to help plan administrators and service providers comply with the new requirements for reporting service provider fee and compensation information on Schedule C of Form 5500 Annual Returns/Reports. The expanded requirements apply for plan years beginning on or after January 1, 2009. <http://www.dol.gov/ebsa/faqs/faq-sch-C-supplement.html>

As summarized in a press release <http://www.dol.gov/ebsa/newsroom/2009/ebsa102309.html>, the new guidance is provided in the form of 25 frequently asked questions (FAQs). Some of the issues covered in the new FAQs, which were developed based on feedback on previously released guidance, include reporting of:

- Gifts, entertainment and other non-monetary compensation
- Compensation to hedge fund investment managers
- “Look-through” investment funds
- Mutual fund redemption fees, as described in SEC Rule 22c-2
- ERISA fee recapture accounts, which are designed to help plans control costs by recapturing some revenue sharing dollars and allowing plans to use them to pay plan expenses

These supplemental FAQs provide clarification regarding the 2009 plan year transition relief for service providers by explaining that the transition relief also covers plan administrators and Form 5500 preparers who rely on those service providers for information needed to complete the Schedule C. According to A15, a reasonable good faith effort to properly classify services and fees is required. EBSA will not reject 2009 Form 5500s solely because the EBSA might have used a different service or fee code than did the service provider or plan administrator in a particular filing, provided that a reasonable good faith effort was made to select the proper codes.

Further details about the transition relief were explained in an earlier set of FAQs released in July 2008. http://www.dol.gov/ebsa/faqs/faq_scheduleC.html.

Social Security Administration

Taxable Wage Base Remains Unchanged

The Social Security Administration also announced that, as there was no increase in the Consumer Price Index (CPI-W) from the third quarter of 2008 to the third quarter of 2009, there was no cost of living adjustment in 2010:

<u>Taxable Wage Base</u>	<u>2009</u>	<u>2010</u>
Maximum amount of earnings subject to payroll tax.	\$106,800	\$106,800

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