



## The Vita Viewpoint Important Information for Decision Makers

### IRS Announces Pension Plan Limitations for 2004

The Internal Revenue Service announced on October 17, 2003 the cost-of-living adjustments applicable to dollar limitations for pension plans and other items for Tax Year 2004.

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. It also requires that the Commissioner annually adjust these limits for cost-of-living increases.

Many of the pension plan limitations will change for 2004. For most of the limitations, the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. Furthermore, several limitations, set by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), are scheduled to increase at the beginning of 2004.

#### ***Maximum Benefit and Contributions Limits for 2003-2004***

	2003	2004
Elective Deferrals (401k & 403b plans)	\$12,000	\$13,000
Annual Benefit Limit	\$160,000	\$165,000
Annual Contribution Limit	\$40,000	\$41,000
Annual Compensation Limit	\$200,000	\$205,000
Highly Compensated Threshold	\$90,000	\$90,000
Income Subject to Social Security	\$87,000	\$87,900
Top-Heavy Plan Key Employee Comp	\$130,000	\$130,000
Catch-Up Contributions	\$2,000	\$3,000

The **Elective Deferral Limit** is the maximum contribution that can be made on a pre-tax basis to a 401(k) or 403(b) plan (Internal Revenue Code section 402(g)(1)). Some still refer to this as the \$7,000 limit (its original setting in 1987).

The **Annual Benefit Limit** is the maximum annual benefit that can be paid to a participant (IRC section 415). The limit applied is actually the lesser of the dollar limit above **or** 100% of the participant's average compensation (generally the high three consecutive years of service).

The **Annual Contribution Limit** is the maximum annual contribution amount that can be made to a participant's account (IRC section 415). This limit is actually expressed as the lesser of the dollar limit **or** 100% of the participant's compensation, applied to the combination of employee contributions, employer contributions and forfeitures allocated to a participant's account. This limit was increased for the first time since its inception last year.

In calculating contribution allocations, a plan cannot consider any employee compensation in excess of the **Annual Compensation Limit** (401(a)(17)). This limit is also imposed in determining the Annual Benefit Limit (above). In calculating certain nondiscrimination tests (such as the Actual Deferral Percentage), all participant compensation is limited to this amount, for purposes of the calculation.

The **Highly Compensated Threshold** (section 414(q)(1)(B)) is the minimum compensation level established to determine highly compensated employees for purposes of nondiscrimination testing.

**Catch up Contributions:** Under the Economic Growth and Tax Relief Act of 2001 (EGTRRA), certain individuals aged 50 or over can now make so-called 'catch up' contributions, in addition to the above limits.

EGTRRA also added the **Top-heavy plan key employee compensation limit**.

***For questions or additional information, please contact Vita Planning Group at (650) 968-8811.***