



The Vita Viewpoint Important Information for Decision Makers

2008 Cost of Living Adjustments for Retirement Plan

Overview

The Internal Revenue Service has announced the cost-of-living adjustments applicable to dollar limitations for retirement plans for 2008. The Social Security Administration has also announced the updated wage base for 2008.

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 2008, but not the 401(k) elective deferral limit. For most of the limitations, the increase in the cost-of-living index meets the statutory thresholds that trigger their adjustment.

Limits and Thresholds

	<u>2007</u>	<u>2008</u>	
Elective Deferral Limit (401k & 403b plans)	\$15,500	\$15,500	<i>Unchanged</i>
Annual Contribution Limit	\$45,000	\$46,000	
Annual Compensation Limit	\$225,000	\$230,000	
Highly Compensated Employee Threshold	\$100,000	\$105,000	
Top-Heavy Plan Key Employee Comp	\$145,000	\$150,000	
Catch-Up Contributions	\$5,000	\$5,000	<i>Unchanged</i>
Income Subject to Social Security	\$97,500	\$102,000	

Definitions

Elective Deferral Limit means 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)).

Annual Contribution Limit means 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.

Annual Compensation Limit means the maximum compensation amount that can be considered in calculating contribution allocations. A plan cannot consider any employee compensation in excess of this amount (401(a)(17)). This limit is also imposed in calculating certain nondiscrimination tests (such as the Actual Deferral Percentage).

Definitions (continued)

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

Catch up Contributions addresses the additional contribution amount that certain individuals aged 50 or over can now make above the normal limits. These so-called 'catch up' contributions were initiated under the Economic Growth and Tax Relief Act of 2001 (EGTRA).

Social Security Wage Base is the maximum amount upon which employers and employees pay FICA tax during the calendar year. The FICA tax rate continues at 6.20%. Medicare tax is paid on total income with no limit and continues at a rate of 1.45% for both employee and employer.

Special Note: For budgeting purposes this wage base increase represents an additional company cost of \$279 for each highly compensated employee who earn over the wage base.

***For questions or additional information, please contact
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