



CLIENT ACTION Bulletin

Employee Benefits

2010 Cost-of-Living Adjustments for Retirement, Social Security, and Health Benefits

SUMMARY

With the release of the September Consumer Price Index (CPI) by the Bureau of Labor Statistics, the IRS and the Social Security Administration (SSA) have announced cost-of-living adjusted figures for retirement plans and for Social Security benefits, respectively, for 2010. For the first time since these figures have been published, almost all amounts would have decreased, due to lower inflation adjustments.

However, the IRS and SSA announced that most limits would remain the same as what they were in 2009. The 2010 adjusted figures for high deductible health plans (HDHPs) and health savings accounts (HSAs) included in this *Client Action Bulletin* were released earlier this year.

DISCUSSION

Retirement Benefits

	2010	2009
Defined Benefit Plan Dollar Limit IRC §415(b)(1)(A)	\$195,000	\$195,000
Defined Contribution Plan Limit IRC §415(c)(1)(A)	\$49,000	\$49,000
401(k)/403(b) Elective Deferral Limit IRC §402(g)(1)	\$16,500	\$16,500
Governments/Tax-Exempts Deferral Limit IRC §457(e)(15)	\$16,500	\$16,500
401(k)/403(b)/457/SEP "Catch-Up" Limit IRC §414(v)(2)(B)(i)	\$5,500	\$5,500
Annual Compensation Limit IRC §§401(a)(17), 404(l)	\$245,000	\$245,000
Highly Compensated Employee (HCE) Limit (Compensation in the prior year exceeding) IRC §414(q)(1)(B)	\$110,000 (HCEs in 2011)	\$110,000 (HCEs in 2010)
Key Employee Officer Compensation IRC §416(i)(1)(A)(i)	\$160,000	\$160,000
SEP Minimum Compensation IRC §408(k)(2)(C)	\$550	\$550
SEP Annual Compensation Limit IRC §408(k)(3)(C)	\$245,000	\$245,000
SIMPLE Employee Contribution Limit IRC §408(p)(2)(E)	\$11,500	\$11,500
SIMPLE "Catch-Up" Deferral Limit IRC §414(v)(2)(B)(ii)	\$2,500	\$2,500

Defined Benefit Plan High-3-Year Compensation Limit

For participants who separate from service before January 1, 2010, the high-three-year compensation limitation for defined benefit plans (under IRC §415(b)(1)(B)) is computed by multiplying the participant's high-three-year compensation, as adjusted through 2009, by 1.0000.

Social Security Program Adjustments

To offset the effects of inflation, Social Security beneficiaries have received an annual cost-of-living increase since 1975, the first time a trigger mechanism on the Consumer Price Index (CPI) was implemented. However, because of a decline in the CPI for the third quarter of 2009, Social Security has announced a zero cost-of-living adjustment for 2010, meaning Social Security benefit payments next January will not increase.

For 2010, the Social Security taxable wage base remains at \$106,800. The Social Security Old-Age, Survivors, and Disability Insurance tax rate will remain at the current 6.2% on wages up to the wage base, assessed on employees and employers, in addition to the 1.45% tax rate assessed on all wages for Medicare Hospital Insurance. The Social Security normal retirement age for individuals born in 1945 (age 65 in 2010) is 66 years and zero months. Individuals born in earlier years have a lower normal retirement age, and those born later will have a higher normal retirement age, with a maximum age of 67 for those born in 1960 and later. Other 2010 adjusted figures from the SSA include:

- The maximum amount an individual may earn in calendar years prior to attaining normal retirement age without a reduction in benefits remains at \$1,180/month (\$14,160/annually); the maximum during the calendar year of attaining normal retirement age remains at \$3,140/month (\$37,680/annually). No earnings test applies to individuals beginning in the month they attain normal retirement age. In calendar years prior to attaining normal retirement age, the SSA withholds \$1 in benefits for every \$2 in earnings in excess of the earnings threshold, and \$1 in benefits for every \$3 exceeding the earnings threshold in the calendar year of attaining normal retirement age.
- The “bend points” – the dollar amounts in the Social Security Primary Insurance Amount (PIA) formula that is used to determine the Average Index Monthly Earnings (AIME) – for 2010 will be \$761 and \$4,586. Thus, the Social Security monthly PIA formula will be 90% of the first \$761 of AIME, plus 32% of the AIME over \$761 and through \$4,586, plus 15% of the AIME over \$4,586 (all of which is then rounded down to the next multiple of \$0.10). An alternative PIA formula producing a lower amount may apply to individuals who have been covered by a retirement plan during employment that is not covered by Social Security.
- The “old law” contribution and benefit base will remain at \$79,200. (The Pension Benefit Guaranty Corporation uses this figure to calculate the amount of benefit guaranteed in 2010, which is anticipated to remain at \$4,500/month at age 65.)
- The amount of earnings required for a quarter of coverage will be \$1,120.

Health Benefits

For 2010, a “high deductible health plan” (HDHP) must have an annual deductible of at least \$1,200 for self-only coverage (\$2,400 for family coverage). The HDHP’s annual out-of-pocket maximums may not exceed \$5,950 for self-only coverage (\$11,900 for family coverage). The maximum annual contribution for a health savings account (HSA) in 2010 will be \$3,050 for an individual with self-only coverage and \$6,150 for an individual with family coverage. In addition, persons age 55 or older may make catch-up contributions of \$1,000 for 2010.

ACTION

Though most 2010 limits are unchanged from 2009, a few have changed, such as the Social Security “bend points.” As a consequence, retirement plan sponsors will want to pay close attention to those that have changed and may have to modify their administrative and payroll systems to accommodate the new limits. Communications that specify the various plan limits should be reviewed for accuracy and modified if necessary before materials are given to participants. Plans that have received favorable determination letters should not request new determination letters solely because of any adjustments to the limits. Retirement plans that are coordinated with Social Security benefits should also be reviewed in light of any adjustments.

Similarly, employers that sponsor HDHPs and HSAs should review their plans in light of any adjustments and revise their communications materials accordingly.

For additional information about the 2010 cost-of-living adjustments for retirement plans, Social Security benefits, and health plans, please contact your Milliman consultant.

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