

CLIENT ACTION BULLETIN

October 16, 2008

CAB 08-21

2009 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 2009. The 2009 adjusted figures for high deductible health plans (HDHPs) included in this *Client Action Bulletin* were released earlier this year.

DISCUSSION Retirement Benefits

Effective January 1, 2009, the following retirement plan limits (along with figures for 2008) apply:

	<u>2009</u>	<u>2008</u>
Defined Benefit Plan Dollar Limit IRC §415(b)(1)(A)	\$195,000	\$185,000
Defined Contribution Plan Limit IRC §415(c)(1)(A)	\$49,000	\$46,000
401(k)/403(b) Elective Deferral Limit IRC §402(g)(1)	\$16,500	\$15,500
Governments/Tax-Exempts Deferral Limit IRC §457(e)(15)	\$16,500	\$15,500
401(k)/403(b)/457/SEP “Catch-up” Limit IRC §414(v)(2)(B)(i)	\$5,500	\$5,000
Annual Compensation Limit IRC §§401(a)(17), 404(l)	\$245,000	\$230,000
Highly Compensated Employee (HCE) Limit IRC §414(q)(1)(B) Compensation in the prior year exceeding	(HCEs in 2010) \$110,000	(HCEs in 2009) \$105,000
Key Employee Officer Compensation IRC §416(i)(1)(A)(i)	\$160,000	\$150,000
SEP Minimum Compensation IRC §408(k)(2)(C)	\$550	\$500
SEP Annual Compensation Limit IRC §408(k)(3)(C)	\$245,000	\$230,000
SIMPLE Employee Contribution Limit IRC §408(p)(2)(E)	\$11,500	\$10,500
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, 2009, 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 2008, by 1.0530.

Social Security Program Adjustments

For 2009, the Social Security taxable wage base increases to \$106,800, up from the 2008 base of \$102,000. 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 1944 (age 65 in 2009) is 66 years and 0 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 2009 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 is \$1,180/month (\$14,160/annually); the maximum during the calendar year of attaining normal retirement age is \$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 2009 will be \$744 and \$4,483. Thus, the Social Security monthly PIA formula will be 90% of the first \$744 of AIME, plus 32% of the AIME over \$744 and through \$4,483, plus 15% of the AIME over \$4,483 (and 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 be \$79,200. (The Pension Benefit Guaranty Corporation uses this figure to calculate the amount of benefit guaranteed in 2009, which is anticipated to be \$4,500.00/month at age 65.)
- The domestic employee coverage threshold will be \$1,700.
- The amount of earnings required for a quarter of coverage will be \$1,090.
- Social Security benefit payments next January will increase by 5.8%, based on the change in the CPI for Urban Wage Earners and Clerical Workers.

Health Benefits

For 2009, a “high deductible health plan” (HDHP) must have an annual deductible of at least \$1,150 for self-only coverage (\$2,300 for family coverage). The HDHP’s annual out-of-pocket maximums may not exceed \$5,800 for self-only coverage (\$11,600 for family coverage). The maximum annual contribution for a health savings account (HSA) in 2009 will be \$3,000 for an individual with self-only coverage and \$5,950 for an individual with family coverage. In addition, persons age 55 or older may make catch-up contributions of \$1,000 for 2009.

ACTION

Retirement plan sponsors 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 the adjustments to the limits. Retirement plans that are coordinated with Social Security benefits should also be reviewed in light of the adjustments.

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

For additional information about the 2009 cost-of-living adjustments for retirement and health plans or Social Security benefits, please contact your Milliman consultant.