

RETIREMENT PLAN LIMITATIONS (2011 UPDATE)

Tax Year	Annual Compensation Limit	Defined Contribution Limitation	401(k)/403(b)/ SAR-SEPS Deferral Limits	457 Plans	401(k)/403(b)/457/ SAR-SEPS Catch-Up Contributions (Age 50 & Older)	HCE Look back Year Compensation	Traditional & Roth IRAs	Traditional & Roth IRAs Catch-Up Contributions (Age 50 & Older)
2002	\$200,000	\$40,000	\$11,000	\$11,000	\$1,000	90,000	\$3,000	\$ 500
2003	\$200,000	\$40,000	\$12,000	\$12,000	\$2,000	90,000	\$3,000	\$ 500
2004	\$205,000	\$41,000	\$13,000	\$13,000	\$3,000	90,000	\$3,000	\$ 500
2005	\$210,000	\$42,000	\$14,000	\$14,000	\$4,000	95,000	\$4,000	\$ 500
2006	\$220,000	\$44,000	\$15,000	\$15,000	\$5,000	100,000	\$4,000	\$1,000
2007	\$225,000	\$45,000	\$15,500	\$15,500	\$5,000	100,000	\$4,000	\$1,000
2008	\$230,000	\$46,000	\$15,500	\$15,500	\$5,000	105,000	\$5,000	\$1,000
2009	245,000	\$49,000	\$16,500	\$16,500	\$5,500	110,000	\$5,000	\$1,000
2010	\$245,000	\$49,000	\$16,500	\$16,500	\$5,500	110,000	\$5,000	\$1,000
2011	\$245,000	\$49,000	\$16,500	\$16,500	\$5,500	110,000	\$5,000	\$1,000
2012	\$245,000 (Subject to COLA)	\$49,000 (Subject to COLA)	\$16,500 (Indexed *)	\$16,500 (Indexed *)	\$5,500 (Indexed *)	110,000 (Indexed *)	\$5,000 (No Indexing)	\$1,000 (No indexing)

*Indexed to inflation in \$500 increments.

Other key pension and retirement changes:

- The taxable wage base for 2011 remains unchanged at \$106,800.
- The compensation used to determine highly compensated employees (HCE's) for lookback years starting in 2011 is \$110,000.
- 415(b) limit for Defined Benefit plans remains unchanged at \$195,000 for limitation years ENDING after December 31, 2008.
- The compensation used to determine key officers remains unchanged at \$160,000.
- Employee elective deferrals to a 401(k) plan are deductible in addition to the employer contribution 25% limit.

Retirement Plan News

401(k) Deposits and Participant Loan Repayments

Department of Labor (DOL) has now clarified that for “Small Plans” (Generally Plans with fewer than 100 participants) there is now a safe-harbor on depositing 401(k) deferrals and participant loans repayments. As long as these funds are deposited within seven business days from the pay date DOL will not assess late deposit penalties.

This does not apply to “Large Plans” where the funds must be deposited immediately and DOL will look closely at the most efficient deposit timing and attempt to hold the Employer to that standard for all deposits.

Hardship Withdrawals in 401(k) Plans

Participants that have taken a Hardship Withdrawal from a 401(k) plan are not allowed to defer into the 401(k) plan for six months following the date of the hardship withdrawal. Your plan can be written with a period longer than six months but this is generally NOT beneficial for the Employer. IRS and DOL are taking a very close look at this given the increase in hardship withdrawals recently. They feel if a deferral occurs right after the hardship this is ineligible and must be withdrawn from the trust immediately as a taxable distribution. It is not sufficient to say “Whoops” and start the six-month period with the next payroll.

ROTH Conversions within Retirement Plans

On Friday November 26, 2010 IRS issued Notice 2010-84, which provides guidance on in-plan ROTH conversions. This option, available to 401(k) plans as of September 27, 2010, enables plans to permit participants to convert existing pre-tax funds in a plan to an after-tax ROTH account within the Plan. The final Notice is quite different from what was initially proposed. For instance, only vested accounts which are eligible for rollover are eligible for the ROTH conversion. Generally only rollover accounts and vested participants that are 59 ½ will be able use this option.

One issue that differentiates the in-plan ROTH direct rollover from the traditional IRA-to-ROTH IRA rollover is that a direct rollover conversion cannot be undone. With IRA conversions, the amounts can be re-characterized back to a pre-tax IRA. This can be beneficial if the balance in the account decreases in value prior to filing your tax return. If you recharacterize back to a pre-tax IRA and then re-convert to a ROTH IRA before you file your tax return your tax obligation would be based on the lower value.

HEART Act (Participants off on Military Service)

If you have a plan participant that contacts you about their retirement benefits after being called up for military service please let us know. The HEART Act has special rules that we must follow regarding their pension benefits. The participant must notify the Employer about this rule; the Employer is NOT required to gather this information.

Electronic Filing of Withholding and Employment Taxes

Beginning in 2011, retirement plans must now implement an electronic funds transfer (EFT) for retirement plan withholding. This new requirement will apply for Employers that have previously submitted withholding by mail on Forms DE-88. You can go to eftps.gov for more information about this new requirement.

Please contact us if you have further questions about any of these matters.

Qualified Plan Services
710 South Broadway, Suite 250
Walnut Creek, California 94596
(925) 939-9292