



# EMPLOYEE BENEFITS CLIENT ALERT

October 16, 2009

## 2010 Cost-of-Living Adjustments

On October 15, 2009, the Internal Revenue Service (“IRS”) announced its annual cost-of-living adjustments for the 2010 tax year. Many of the limitations on benefits and contributions under qualified retirement plans remain unchanged for 2010 because the cost-of-living index for the quarter ended September 30, 2009, is less than the cost-of-living index for the quarter ended September 30, 2008. A decline in the applicable cost-of-living index does not reduce the prior year’s limitations on benefits and contributions.

The following limitations generally are effective on the first day of the 2010 tax year:

- Elective Deferrals. The maximum annual elective deferral amount for 401(k) plans and for deferred compensation plans of state and local governments and tax-exempt organizations remains unchanged at \$16,500.
- Defined Benefit Limit. The maximum annual benefit payable under a defined benefit pension plan remains unchanged at \$195,000. For participants who separate from service prior to January 1, 2010, such benefit is computed by multiplying the participant’s compensation limitation, as adjusted through 2009, by 1.0000.
- Defined Contribution Limit. The maximum annual contribution dollar limit under a defined contribution plan remains unchanged at \$49,000.
- Annual Compensation. The maximum annual compensation of each employee that can be taken into account under a qualified retirement plan remains unchanged at \$245,000.
- Key Employee Compensation. The compensation limit for determining whether an officer is a key employee in a top-heavy plan remains unchanged at \$160,000.
- ESOP Limits. The amount for determining the maximum account balance in an ESOP subject to a five-year distribution period remains unchanged at \$985,000. The dollar amount used to determine whether an ESOP five-year distribution period should be extended also remains unchanged at \$195,000.



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- Highly Compensated Employee. The compensation limit for purposes of defining a highly compensated employee remains unchanged at \$110,000.
- Catch-Up Contributions. The maximum annual dollar limitation for catch-up contributions by participants age 50 and over to applicable employer plans other than SIMPLE plans remains the same at \$5,500. The maximum annual dollar limitation for catch-up contributions by participants age 50 and over to SIMPLE plans remains unchanged at \$2,500.
- SEP Participation. The minimum employee compensation for purposes of determining employer participation in simplified employee pensions (“SEPs”) remains unchanged at \$550.
- SIMPLE Retirement Accounts. The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts remains unchanged at \$11,500.
- HSA Contribution Limits. For 2010 the HSA contribution limit for individual coverage is \$3,050 and \$6,150 for family coverage. The maximum annual dollar limitation for catch-up contributions for individuals age 55 and over remains unchanged at \$1,000.

### COLA CHART

Click on the following link to access our chart that highlights selected employee-benefit-related limits for 2010 and other years: <http://www.kutakrock.com/publications/employeebenefits/10cola.pdf>

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