

# A L E R T

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United States

## 2005 Limits for Benefit Plans—Updated

Each year, the U.S. government adjusts the limits for pension plans, Social Security, Medicare, and other benefit programs to reflect price and wage inflation, and changes in the law. As a result, employee benefits specialists must annually adapt their benefit plans to accommodate the new limits. All of the numbers in this *Alert* are official.

Note: Our October 21, 2004, *Alert* was published soon after IRS and the other federal agencies released their official inflation-adjusted benefit limits in mid-October. That *Alert* also estimated the inflation-adjusted amounts for income tax brackets, personal exemptions, standard deductions, and similarly adjusted items. In November, IRS released its second wave of official inflation-adjusted items and PBGC updated its maximum guaranteed benefit in December. We have updated our *Alert* accordingly.

### Retirement plans, published by IRS

| Annual Compensation: <sup>1</sup>                    | 2005      | 2004      | 2003      | 2002      |
|--|-----------|-----------|-----------|-----------|
| Basic limit  | \$210,000 | \$205,000 | \$200,000 | \$200,000 |
| Certain governmental plans                           | 315,000   | 305,000   | 300,000   | 295,000   |
| <b>Limits on Benefits and Contributions:</b>         |           |           |           |           |
| Defined benefit plans, basic limit <sup>2</sup>      | 170,000   | 165,000   | 160,000   | 160,000   |
| Defined contribution plans, basic limit <sup>3</sup> | 42,000    | 41,000    | 40,000    | 40,000    |
| 401(k) and 403(b) plans, elective deferrals          | 14,000    | 13,000    | 12,000    | 11,000    |
| 457(b) plans, elective deferrals                     | 14,000    | 13,000    | 12,000    | 11,000    |
| 415 compensation limit adjustment factor             | 1.0273    | 1.0220    | 1.0159    | 1.0270    |
| <b>Catch-Up Contributions:</b>                       |           |           |           |           |
| 401(k), 403(b), or governmental 457(b) plans         | 4,000     | 3,000     | 2,000     | 1,000     |
| SIMPLE plans   | 2,000     | 1,500     | 1,000     | 500       |
| <b>“Highly Compensated” Definition<sup>4</sup></b>   | 95,000    | 90,000    | 90,000    | 90,000    |
| <b>“Officer” for “Key Employee” Definition</b>       | 135,000   | 130,000   | 130,000   | 130,000   |
| <b>SIMPLE Plans: Elective Deferral Limit</b>         | 10,000    | 9,000     | 8,000     | 7,000     |
| <b>Simplified Employee Pensions:</b>                 |           |           |           |           |
| Minimum compensation                                 | 450       | 450       | 450       | 450       |
| Maximum compensation                                 | 210,000   | 205,000   | 200,000   | 200,000   |

<sup>1</sup> Limit applies to plan year (or 12-consecutive-month period) beginning in indicated calendar year.

<sup>2</sup> Limit applies to limitation year ending in indicated calendar year.

<sup>3</sup> Limit applies to limitation year beginning in indicated calendar year.

<sup>4</sup> Limit applies to compensation during the plan year beginning in indicated calendar year to determine highly compensated for following plan year.

### Retirement Plans (continued), published by IRS

|   | 2005      | 2004      | 2003      | 2002      |
|---|-----------|-----------|-----------|-----------|
| <b>Tax Credit ESOPs:</b>                      |           |           |           |           |
| 5-year limit                                  | \$850,000 | \$830,000 | \$810,000 | \$800,000 |
| Additional 1-year limit                       | 170,000   | 165,000   | 160,000   | 160,000   |
| <b>Covered Compensation at 65<sup>5</sup></b> | 48,696    | 46,284    | 43,968    | 39,444    |

### Defined Benefit Plans, published by PBGC

|  | 2005      | 2004      | 2003      | 2002      |
|--|-----------|-----------|-----------|-----------|
| <b>Fixed-rate Premium, per participant</b>             | 19        | 19        | 19        | 19        |
| <b>Variable-rate Premium (% of unfunded liability)</b> | 0.9%      | 0.9%      | 0.9%      | 0.9%      |
| <b>Maximum Guaranteed Benefit</b>                      | 45,613.68 | 44,386.32 | 43,977.24 | 42,954.60 |

### Social Security, published by SSA

|   | 2005     | 2004     | 2003      | 2002      |
|---|----------|----------|-----------|-----------|
| <b>Payroll Taxes:</b>   |          |          |           |           |
| Payroll tax rate, employee share                                    | 6.20%    | 6.20%    | 6.20%     | 6.20%     |
| Wage base   | \$90,000 | \$87,900 | \$87,000  | \$84,900  |
| <b>Earnings Test Thresholds:</b>                                    |          |          |           |           |
| Years before normal retirement age <sup>6</sup>                     | 12,000   | 11,640   | 11,520    | 11,280    |
| Year of normal retirement age <sup>7</sup>                          | 31,800   | 31,080   | 30,720    | 30,000    |
| <b>Cost-of-Living Adjustment, at end of prior year</b>              | 2.7%     | 2.1%     | 1.4%      | 2.6%      |
| <b>Maximum Annual Benefit, at normal retirement age<sup>6</sup></b> | \$23,268 | \$21,900 | \$20,892  | \$19,920  |
| <b>Primary Insurance Amount (PIA) "bend points"</b>                 |          |          |           |           |
| 90% of average indexed monthly earnings (AIME) up to:               | 627      | 612      | 606       | 592       |
| 32% of excess AIME up to (and 15% of excess over):                  | 3,779    | 3,689    | 3,653     | 3,567     |
| <b>Family Maximum "bend points"</b>                                 |          |          |           |           |
| 150% of PIA up to:  | 801      | 782      | 774       | 756       |
| 272% of excess PIA up to:   | 1,156    | 1,129    | 1,118     | 1,092     |
| 134% of excess PIA up to (and 175% of excess over):                 | 1,508    | 1,472    | 1,458     | 1,424     |
| <b>Average Covered Wages, for indexing wages</b>                    |          |          | 34,064.95 | 33,252.09 |

<sup>5</sup> Amount applies in indicated calendar year to individuals age 65 in that year. It does not include increases beyond age 65 for individuals with a Social Security normal retirement age greater than 65.

<sup>6</sup> In 2005, the Social Security normal retirement age is age 65 and 6 months. The normal retirement age will gradually increase to age 67 in 2027.

<sup>7</sup> This earnings test applies in the months before a worker's Social Security normal retirement age in the year the worker attains that age. For example, the earnings test would apply to a worker born in June 1940 for the 11 months before the Social Security normal retirement age of 65 and 6 months (i.e., December 2005).

**Medicare, published by Centers for Medicare & Medicaid Services**

|  | 2005      | 2004      | 2003      | 2002      |
|--|-----------|-----------|-----------|-----------|
| <b>Part A (hospital insurance):</b>              |           |           |           |           |
| Payroll tax rate, employee share                 | 1.45%     | 1.45%     | 1.45%     | 1.45%     |
| Wage base  | unlimited | unlimited | unlimited | unlimited |
| Inpatient deductible                             | \$912.00  | \$876.00  | \$840.00  | \$812.00  |
| Daily coinsurance, days 61-90                    | 228.00    | 219.00    | 210.00    | 203.00    |
| Daily coinsurance, days 91-150 lifetime reserve  | 456.00    | 438.00    | 420.00    | 406.00    |
| Daily coinsurance, skilled nursing facility      | 114.00    | 109.50    | 105.00    | 101.50    |
| <b>Part B (supplementary medical insurance):</b> |           |           |           |           |
| Monthly premium                                  | 78.20     | 66.60     | 58.70     | 54.00     |
| Deductible                                       | 110.00    | 100.00    | 100.00    | 100.00    |

**Control Employee Definition for Commuting Valuation, published by IRS**

|                       | 2005     | 2004     | 2003     | 2002     |
|-----------------------|----------|----------|----------|----------|
| Officer Compensation  | \$85,000 | \$80,000 | \$80,000 | \$80,000 |
| Employee Compensation | 170,000  | 165,000  | 160,000  | 160,000  |

**Qualified Transportation Fringe Benefit, published by IRS**

|                               | 2005     | 2004     | 2003     | 2002     |
|-------------------------------|----------|----------|----------|----------|
| Parking                       | \$200.00 | \$195.00 | \$190.00 | \$185.00 |
| Transit Pass/Commuter Vehicle | 105.00   | 100.00   | 100.00   | 100.00   |

**Dependent Care Assistance Plans, published by IRS**

|         | 2005    | 2004    | 2003    | 2002    |
|---------|---------|---------|---------|---------|
| Maximum | \$5,000 | \$5,000 | \$5,000 | \$5,000 |

**Adoption Exclusion and Credit, published by IRS**

|                                  | 2005     | 2004     | 2003     | 2002     |
|----------------------------------|----------|----------|----------|----------|
| Maximum for Exclusion and Credit | \$10,630 | \$10,390 | \$10,160 | \$10,000 |
| Phase-out Start for Credit       | 159,450  | 155,860  | 152,390  | 150,000  |

**Health Savings Accounts, published by IRS**

|                            | 2005    |         | 2004    |         | 2003    |         | 2002   |        |
|----------------------------|---------|---------|---------|---------|---------|---------|--------|--------|
|                            | Single  | Family  | Single  | Family  | Single  | Family  | Single | Family |
| Contributions <sup>8</sup> | \$2,650 | \$5,250 | \$2,600 | \$5,150 | \$2,250 | \$4,500 | N/A    | N/A    |
| Deductible                 | 1,000   | 2,000   | 1,000   | 2,000   | 1,000   | 2,000   | N/A    | N/A    |
| Out-of-Pocket              | 5,100   | 10,200  | 5,000   | 10,000  | 5,000   | 10,000  | N/A    | N/A    |

**Medical Savings Account, published by IRS**

|                               | 2005          | 2004          | 2003          | 2002          |
|-------------------------------|---------------|---------------|---------------|---------------|
| Individual Contribution Range | \$1,138-1,723 | \$1,105-1,690 | \$1,105-1,625 | \$1,073-1,625 |
| Family Contribution Range     | 2,625-3,938   | 2,588-3,863   | 2,513-3,788   | 2,475-3,713   |

<sup>8</sup> The maximum HSA contribution is the lesser of dollar amount shown in this line or the deductible under the high deductible health plan associated with the HSA.

### Long Term Care Insurance Deductible Premiums, published by IRS

|                | 2005  | 2004  | 2003  | 2002  |
|----------------|-------|-------|-------|-------|
| Age 40 or less | \$270 | \$260 | \$250 | \$240 |
| Age 41-50      | 510   | 490   | 470   | 450   |
| Age 51-60      | 1,020 | 980   | 940   | 900   |
| Age 61-70      | 2,720 | 2,600 | 2,510 | 2,390 |
| Older than 70  | 3,400 | 3,250 | 3,130 | 2,990 |

### Federal Standard Deduction and Exemption, published by IRS

|                                  | 2005     | 2004    | 2003    | 2002    |
|----------------------------------|----------|---------|---------|---------|
| <b>Basic Standard Deduction:</b> |          |         |         |         |
| Married filing jointly           | \$10,000 | \$9,700 | \$9,500 | \$7,850 |
| Head of household                | 7,300    | 7,150   | 7,000   | 6,900   |
| Single                           | 5,000    | 4,850   | 4,750   | 4,700   |
| <b>Personal Exemption</b>        | 3,200    | 3,100   | 3,050   | 3,000   |

### Federal Income Tax Brackets, published by IRS

|  | 2005    |       | 2004    |       | 2003    |       | 2002    |       |
|--|---------|-------|---------|-------|---------|-------|---------|-------|
|  | Bracket | Rate  | Bracket | Rate  | Bracket | Rate  | Bracket | Rate  |
| <b>Married filing jointly:</b>               |         |       |         |       |         |       |         |       |
| Rate applies to taxable income in excess of: | \$0     | 10.0% | \$0     | 10.0% | \$0     | 10.0% | \$0     | 10.0% |
|  | 14,600  | 15.0% | 14,300  | 15.0% | 14,000  | 15.0% | 12,000  | 15.0% |
|  | 59,400  | 25.0% | 58,100  | 25.0% | 56,800  | 25.0% | 46,700  | 27.0% |
|  | 119,950 | 28.0% | 117,250 | 28.0% | 114,650 | 28.0% | 112,850 | 30.0% |
|  | 182,800 | 33.0% | 178,650 | 33.0% | 174,700 | 33.0% | 171,950 | 35.0% |
|  | 326,450 | 35.0% | 319,100 | 35.0% | 311,950 | 35.0% | 307,050 | 38.6% |
| <b>Head of household:</b>                    |         |       |         |       |         |       |         |       |
| Rate applies to taxable income in excess of: | 0       | 10.0% | 0       | 10.0% | 0       | 10.0% | 0       | 10.0% |
|  | 10,450  | 15.0% | 10,200  | 15.0% | 10,000  | 15.0% | 10,000  | 15.0% |
|  | 39,800  | 25.0% | 38,900  | 25.0% | 38,050  | 25.0% | 37,450  | 27.0% |
|  | 102,800 | 28.0% | 100,500 | 28.0% | 98,250  | 28.0% | 96,700  | 30.0% |
|  | 166,450 | 33.0% | 162,700 | 33.0% | 159,100 | 33.0% | 156,600 | 35.0% |
|  | 326,450 | 35.0% | 319,100 | 35.0% | 311,950 | 35.0% | 307,050 | 38.6% |
| <b>Single:</b>                               |         |       |         |       |         |       |         |       |
| Rate applies to taxable income in excess of: | 0       | 10.0% | 0       | 10.0% | 0       | 10.0% | 0       | 10.0% |
|  | 7,300   | 15.0% | 7,150   | 15.0% | 7,000   | 15.0% | 6,000   | 15.0% |
|  | 29,700  | 25.0% | 29,050  | 25.0% | 28,400  | 25.0% | 27,950  | 27.0% |
|  | 71,950  | 28.0% | 70,350  | 28.0% | 68,800  | 28.0% | 67,700  | 30.0% |
|  | 150,150 | 33.0% | 146,750 | 33.0% | 143,500 | 33.0% | 141,250 | 35.0% |
|  | 326,450 | 35.0% | 319,100 | 35.0% | 311,950 | 35.0% | 307,050 | 38.6% |

### Mileage Rates, published by IRS

|                    | 2005    | 2004    | 2003    | 2002    |
|--------------------|---------|---------|---------|---------|
| Business           | \$0.405 | \$0.375 | \$0.360 | \$0.365 |
| Medical and Moving | 0.150   | 0.140   | 0.120   | 0.130   |
| Charitable         | 0.140   | 0.140   | 0.140   | 0.140   |