November 5, 2010

CAB 10-23R

CLIENT ACTION Bulletin

Employee Benefits

COLAs Leave Retirement, Social Security, and Health Benefit Figures Unchanged for 2011

SUMMARY

With the release of the September 2010 Consumer Price Index (CPI) by the Bureau of Labor Statistics, the Social Security Administration (SSA) and the IRS have announced cost-of-living adjusted figures for Social Security and retirement plan benefits, respectively, for 2011. Due to low inflation, almost all figures published will remain the same for 2011 as they were in 2010. The 2011 adjusted figures for high deductible health plans (HDHPs) and health savings accounts (HSAs) included in this *Client Action Bulletin* were released earlier this year. These figures also did not change from those reported for 2010.

DISCUSSION

Retirement Benefits

	2011	2010
Defined Benefit Plan Dollar Annuity Limit IRC §415(b)(1)(A)	$195,000	$195,000
Defined Contribution Plan Combined Limit IRC §415(c)(1)(A)	$49,000	$49,000
Defined Contribution Plan Elective Deferral Limit IRC §402(g)(1)	$16,500	$16,500
Government/Tax-Exempt Plans' Deferral Limit IRC §457(e)(15)	$16,500	$16,500
401(k)/403(b)/457 Plans' "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 IRC §414(q)(1)(B)	$110,000 (HCEs in 2012)	$110,000 (HCEs in 2011)
Key Employee/Officer Compensation IRC §416(i)(1)(A)(i)	$160,000	$160,000

Defined Benefit Plan High-3-Year Compensation Limit

For participants who separate from service before Jan. 1, 2010, the high-three-year compensation limitation for defined benefit plans (under IRC §415(b)(1)(B)) is unchanged (i.e., the adjustment factor is 1.0000). However, for participants who separate from service during 2010, the adjusted compensation limitation is computed by multiplying the participant's high-three-year compensation by 1.0118.

Social Security Program Adjustments

For 2011, the Social Security taxable wage base remains at $106,800. The Social Security Old-Age, Survivors, and Disability Insurance (OASDI) tax rate will remain at 6.2% on wages up to the $106,800 wage base, capping 2011 OASDI taxes at $6,621.60 assessed on both the employee and the employer. The Medicare Hospital Insurance (HI) tax rate will remain at 1.45% on all wages. An individual who attains Social Security normal retirement age 66 in 2011 (born in 1945) will be eligible to commence unreduced Social Security benefits. Most 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 2011 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).

- The "bend points"–the dollar amounts in the Social Security Primary Insurance Amount (PIA) formula that is used to determine beneficiaries' Average Index Monthly Earnings (AIME)–for 2011 will be $749 and $4,517. Thus, the Social Security monthly PIA formula will be 90% of the first $749 of AIME, plus 32% of the AIME over $749 and through $4,517, plus 15% of the AIME over $4,517.

- 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 2011, which will remain at $4,500/month at age 65.)

- The amount of earnings required for a quarter of coverage will be unchanged at $1,120.

Note that the CPI for the 12-month period ending Sept. 30, 2010, was insufficient to produce an increase for Social Security benefits for 2011, marking the second year in a row that benefits will be unchanged. To offset the effects of inflation, Social Security beneficiaries had received an annual cost-of-living increase since 1975, the first time a trigger mechanism on the CPI was implemented. However, present law requires an adjustment only if there is an increase in the CPI (as measured during the third calendar quarter of a year) of at least one-tenth of one percent.

Health Benefits

The inflation adjusted amounts for HSAs in 2011 are unchanged from the amounts for 2010. The maximum annual contribution for HSAs in 2011 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 2011.

For 2011, HDHPs 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).

ACTION

Because the employee benefit plan 2011 limits are unchanged from 2010, plan sponsors should verify that their administrative and payroll systems reflect the appropriate limits. In addition, modifications to payroll and other administrative systems should be considered, such as the newly announced voluntary reporting of the value of employees' health coverage on Form W-2 for 2011. Communications that specify the various benefit plan limits should be reviewed for accuracy before materials are given to participants. Retirement plans that are coordinated with Social Security benefits should also be reviewed for accuracy.

For additional information about the 2011 cost-of-living adjustments for retirement plans, Social Security benefits, and health plans, please contact your Milliman consultant.