

2012 Contribution Limits for 403(b) and 401(k) Plans

Outlined below are the basic 403(b) and 401(k) plan contribution limits for 2012, which have changed from 2011. Your retirement plan continues to be one of the very best ways to prepare for the future financially.

Be aware that these limits are higher than many participants can use: however, there are a number of circumstances where increased contributions, including employer contributions as part of a contractual severance package for up to 5 years after separation from service, can be important.

Also be aware that retirement plan account types need to be added together (aggregated) to determine the applicable contribution limits. For example, in 2012, the elective deferral limit will be \$17,000. An employee who contributes \$7,000 to an after-tax Roth 403(b) account could only contribute \$10,000 to their before-tax Traditional 403(b) account. Roth 403(b) contributions are part of the \$17,000 limit – not in addition to the pre-tax contributions – in other words no double dipping!

- **Elective Deferral Limits** [§402(g) Limits] (Employee Voluntary Contributions) \$17,000
- **Age 50 Catch Up Provision** (In addition to the Elective Deferral Limits above) \$ 5,500
- **15 Years of Service Catch Up Provision** (In addition to the Elective Deferral Limits, 403(b) plans only, see dialog below*) \$ 3,000
- **Maximum Combined Employee and Employer** (§415 Limits) \$50,000 (or 100% of includable compensation - apply the lesser of the two.)
- **Maximum Combined Employee and Employer** (if the Age 50 Catch Up applies) \$55,500 (or 100% of includable compensation - apply the lesser of the two.)
- **IRC 415(c)(7) Catch Up Option** (seldom used but nonetheless available), 403(b) plans only, see dialog below **) \$10,000 per year Employer Contribution for very low-income employees.

* Certain 501(c)(3) organizations that sponsor 403(b) plans are eligible for the use of the “**15 Years of Service Catch Up Provision**”. Those eligible employers are limited to five groups:

1. Educational institutions;
2. Hospitals;
3. Churches and church affiliated organizations;
4. Home health service agencies; and
5. Health and welfare agencies.

The criteria for determining who is eligible for the "15 Years of Service Catch Up Provision" is as follows:

1. The participant will have to reach the 15 years of service anniversary date by the end of the current tax year.
2. Years of service can only be counted with their current employer, except for the employees of religious organizations where years of service are counted within the denomination.
3. Participants who have contributed, on average, \$5,000 or more for each year of service leading up to the 15 years, are not eligible to use the increased contribution limit.
4. The increased limit for the “15 Years of Service Catch Up” can be used with the current employer only until \$15,000 in "extra" contributions have been made. At that time, the "extra" contributions will need to cease.

** The “**IRC §415(c)(7) Catch Up Provision**” permits up to \$10,000 per year to be contributed to a 403(b) plan until a total of \$40,000 has been used under this limit. It will apply to very low income employees for whom the religious organization wishes to make employer contributions. Example: Pastor preaches for a small congregation once a month and receives compensation of \$2,400 per year for those services. Pastor cannot afford to make elective deferrals to a 403(b) plan; however, the church wishes to recognize his many years of faithful service. The church can make a contribution on behalf



of Pastor to a 403(b) plan of up to \$10,000 each year until the \$40,000 limit has been utilized. After that, the church could continue to contribute on behalf of the Pastor, subject to the "100% of includable compensation" §415 limitations.

***** Other Important Information:**

1. For those participants who are maximizing their contributions (using the maximum Elective Deferral, the 15 Years of Service Catch Up Provision and the Age 50 Catch Up Provision, subsequently equaling \$25,500 in contributions), the IRS has established "ordering rules". Under these ordering rules, individuals using both "extra" contributory limits will be considered to be using the "15 Years of Service" limit first.
2. If a participant is age 50+ and is eligible to use the 15 Years of Service limit contributed (for example) \$3,000 more than the elective deferral limit, he/she will be using the 15 year of service increase - not the age 50 Catch Up.
3. Naturally, if the participant is not eligible for the 15 year of service increased contribution limit, the age 50 Catch Up will apply to salary reduction contributions made in excess of the basic limit.
4. *Includable Compensation / Housing Allowance* Among the most frequently asked questions about compensation for the purposes of the 403(b) contribution limits are whether or not a minister's housing allowance can be included in compensation for purposes of the maximum annual contribution calculation (100% of compensation). The answer is "no", because the housing allowance is not a taxable benefit. Section 107 of the Code specifically states that housing allowance is not includable in gross income; hence is not subject to taxation.

Additional information about the 2012 contribution limits can be obtained directly from Envoy Financial. Plan Sponsors, please contact David McHenry at (888) 879-1376, ext. 228. Plan Participants, please contact Participant Service at (888) 879-1376, option 1.

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