

2002 Limitations Adjusted as Provided in Section 415(d), etc.¹

Notice 2001-84

Section 415 of the Internal Revenue Code (the Code) provides for dollar limitations on benefits and contributions under qualified retirement plans. Section 415 also requires that the Commissioner annually adjust these limits for cost-of-living increases. Other limitations applicable to deferred compensation plans are also affected by these adjustments. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) reset many of the statutory dollar amounts previously adjusted on an annual basis under § 415 of the Code. Additionally, other new limitation amounts were added by EGTRRA.

Limitations reset or established by EGTRRA

Effective for limitation years ending after December 31, 2001, the limitation on the annual benefit under a defined benefit plan under § 415(b)(1)(A) is increased from \$140,000 to \$160,000 by section 611 of EGTRRA. See, Q&A-1 of Rev. Rul. 2001-51 (2001-45 I.R.B. 427).

The limitation for defined contribution plans under § 415(c)(1)(A) of the Code is increased from \$35,000 to \$40,000 by section 611 of EGTRRA effective for limitation years beginning after December 31, 2001. However, the limitation for defined contribution plans with non-calendar limitation years beginning before January 1, 2002, and ending after December 31, 2001, remains unchanged at \$35,000. See, Q&A-9 of Rev. Rul. 2001-51.

The limitation under § 402(g)(1) of the Code on the exclusion for elective deferrals described in § 402(g)(3) is increased from \$10,500 to \$11,000 by section 611 of EGTRRA. This limitation affects elective deferrals to section 401(k) plans and to the Federal Government's Thrift Savings Plan, among other plans.

The annual compensation limit under §§ 401(a)(17), 404(l), and 408(k)(3)(C) of the Code is increased from \$170,000 to \$200,000 by section 611 of EGTRRA.

The limitation under § 408(p)(2)(E) of the Code (formerly under § 408(p)(2)(A)) regarding SIMPLE retirement accounts is increased from \$6,500 to \$7,000 by section 611 of EGTRRA.

The limitation on deferrals under § 457(e)(15) of the Code (formerly under §§ 457(b)(2) and (c)(1)) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$8,500 to \$11,000 by section 611 of EGTRRA.

The dollar limitation under § 416(i)(1)(A)(i) of the Code concerning the definition of key employee in a top-heavy plan is \$130,000, as added by section 613 of EGTRRA.

The dollar limitation under § 414(v)(2)(B)(i) of the Code for catch-up contributions to an applicable employer plan other than a plan described in § 401(k)(11) or 408(p) for individuals aged 50 or over is \$1,000. The dollar limitation under § 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in § 401(k)(11) or 408(p) for individuals aged 50 or over is \$500. Both of these limitations were added by section 631 of EGTRRA.

Limitations not reset by EGTRRA

The dollar amounts not reset by EGTRRA are adjusted at the same time and in the same manner as under § 415(d) of the Code as follows:

For participants who separated from service before January 1, 2002, the limitation for defined benefit plans under § 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2001, by 1.0270.

The dollar amount under § 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from \$780,000 to \$800,000, while the

dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$155,000 to \$160,000.

The limitation used in the definition of highly compensated employee under § 414(q)(1)(B) is increased from \$85,000 to \$90,000.

The annual compensation limitation under § 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under § 401(a)(17) to be taken into account, is increased from \$285,000 to \$295,000.

The compensation amount under § 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$450.

The compensation amounts under § 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes is increased from \$75,000 to \$80,000. The compensation amount under § 1.61-21(f)(5)(iii) is increased from \$155,000 to \$160,000.

Administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans.

DRAFTING INFORMATION

The principal author of this notice is John Heil of the Employee Plans, Tax Exempt and Government Entities Division. For further information regarding the information in this notice, contact the Employee Plans Customer Assistance Service at 1-877-829-5500 between the hours of 8:00 a.m. and 6:30 p.m. Eastern time, Monday through Friday (a toll-free call). For information on the methodology used in arriving at these numbers, contact Mr. Heil at 1-202-283-9888 (not a toll-free call).

¹ Based on News Release IR-2001-115, dated December 11, 2001.