

THE MASTERS

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CHANGES IN IRA & 401(K)s for 2012

A recap of contribution limit and phase-out adjustments.

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The IRS has announced cost-of-living adjustments to IRAs and employer-sponsored retirement plans for 2012, so here is what you need to know about the newly altered contribution limits and phase-outs for these plans.

401(k) & IRA yearly contribution limits. In 2012, these are the annual contribution limits for some popular retirement savings vehicles:

- *401(k)s, 403(b)s, most 457 plans, Thrift Savings Plan (TSP)* - **\$17,000** with an additional \$5,500 catch-up contribution allowed for those 50 or older. (2012 COLA: \$500.)
- *Traditional & Roth IRAs* - **\$5,000** with an additional \$1,000 catch-up contribution allowed for those 50 or older. (No 2012 COLA.)
- *Simple IRAs* - **\$11,500** with an additional \$2,500 catch-up contribution allowed for those 50 or older. (No 2012 COLA.)
- *SEP IRAs* - **\$50,000** or 25% of an employee's compensation, whichever is lesser. (2012 COLA: \$1,000.)
- *415(b) defined benefit plans* - the limitation on annual benefits under a defined benefit plan is increased to **\$200,000**. (2012 COLA: \$5,000.)^{1,2,3,4}

Traditional IRA phase-outs. The new MAGI limits affecting deductions for traditional IRA contributions are:

- Singles & heads of household covered by a workplace retirement plan: **\$58,000-68,000**. (2012 COLA: \$2,000.)
- Married filing jointly, with spouse making the IRA contribution covered by a workplace retirement plan: **\$92,000-112,000**. (2012 COLA: \$2,000.)
- Married filing jointly, IRA contributor not covered by a workplace retirement plan but married to someone who is: **\$173,000-183,000**. That MAGI range is for a couple rather than an individual. (2012 COLA: \$4,000.)¹

Roth IRA phase-outs. The MAGI limits affecting deductions for Roth IRA contributions are set as follows for 2012:

- Singles & heads of household covered by a workplace retirement plan: **\$110,000-125,000**. (2012 COLA: \$3,000.)
- Married filing jointly: **\$173,000-183,000**. (2012 COLA: \$4,000.)

- Married filing separately, with the Roth IRA contributor covered by a workplace retirement plan: **\$0-10,000**. (No 2012 COLA.)¹

Lastly, a couple of notes for employers. When it comes to defining "key employees" in a top-heavy plan, the determination limit goes up \$5,000 to \$165,000 in 2012. The maximum taxable earnings amount for Social Security increases to \$110,100 from \$106,800 next year.⁵



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Citations.

- 1 www.irs.gov/newsroom/article/0,,id=248482,00.html [10/20/11]
- 2 money.usnews.com/money/blogs/planning-to-retire/2011/10/21/401k-and-ira-changes-coming-in-2012 [10/21/11]
- 3 www.irs.gov/retirement/participant/article/0,,id=211345,00.html [10/20/11]
- 4 www.irs.gov/retirement/article/0,,id=111419,00.html#12 [10/21/11]
- 5 www.lexology.com/library/detail.aspx?g=c9-7f27-4a92-93e3-4c0193f51347 [10/20/11]