

MEMO# 948

February 1, 1989

COST-OF-LIVING ADJUSTMENTS TO SECTION 415 AND RELATED LIMITATIONS

February 1, 1989 TO: PENSION MEMBERS NO. 5-89 RE: COST-OF-LIVING ADJUSTMENTS TO
SECTION 415 AND RELATED LIMITATIONS

Attached is a copy of IRS News Release 89-10, which provides for cost-of-living adjustments to the limitations under section 415 of the Code and related limitations, effective January 1, 1989. The maximum limitation for defined benefit plans under section 415 has increased from \$94,023 to \$98,064. There is no corresponding increase with respect to the \$30,000 limitation for defined contribution plans, because that figure cannot be adjusted until the limitation for defined benefit plans exceeds \$120,000. In addition, this release increases the maximum amount of elective deferrals under a 401(k) plan or a salary reduction simplified employee pension (SEP) from \$7,313 to \$7,627 per year. The threshold amount for purposes of the excise tax on excess distributions from retirement plans under section 4980A is increased from \$117,529 to \$122,580. Certain dollar limitations applicable to SEPs have also been increased. Under section 408(k)(2)(C), a SEP may now exclude those employees with less than \$327 of compensation. The contribution formula now cannot take into account compensation in excess of \$200,000, as a result of the Technical and Miscellaneous Revenue Act of 1988. We will keep you informed of further developments. Kathy D. Ireland Assistant General Counsel Attachment

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