

TAX-DEFERRED RETIREMENT PLAN LIMITS

PERSI Employer Responsibility for Limit Testing in 2012

Limits on Tax-Deferred Retirement Plans

All tax-deferred retirement plans, like the PERSI Choice 401(k) Plan, are subject to limits on the amount of compensation that can be deferred from salary or otherwise contributed by or on behalf of a participant. These limits also apply to 457 and 403(b) plans. Although PERSI does not administer those plans, some PERSI members participate in them through their employer. The limit applies to combined 401(k) and 403(b) contributions so 403(b) contributions must be coordinated with Choice 401(k) Plan contributions for limits purposes. Contributions to a 457 plan are subject to a separate limit so do not affect Choice Plan contributions.

Elective Deferral [IRC Section 402(g)] Limits for 2012

The Internal Revenue Service (IRS) limits the amount of money an employee can contribute (defer from salary) to a defined contribution plan in a calendar year. These are the "IRC Section 402(g)" limits. For 2012 it's \$17,000. The elective deferral limit may be adjusted for inflation annually in \$500 increments as determined by the IRS.

For 2012:

- If contributing to both a 401(k) and a 403(b), a member may contribute a combined total of up to \$17,000 between both plans.
- If contributing to both a 401(k) and a 457, a member may contribute up to \$17,000 to each plan, for a combined total deferral of \$34,000.

Catch-Up Provisions

Participants at least 50 years of age during 2012 may contribute an additional \$5,500 to a 403(b) and/or 401(k) plan, for a total of \$22,500. The contributions to those two plans are combined for limits purposes. The participant may also contribute an additional \$5,500 to a 457 plan (for a total of \$22,500); that limit is not coordinated with the 401(k) or 403(b) plans.

Coordination Between Plans

Contributions to the 401(k) and 403(b) plans are *combined* for purposes of calculating the annual limit as well as the catch-up contributions. Contributions to a 457 plan are not coordinated with 401(k) or 403(b) plans for limits purposes. The chart below summarizes the deferral limits for 2012:

IRS 402(g) Salary Deferral Limits	Under Age 50	Age 50 & Older	Comments
401(k) Plan only	\$17,000	\$22,500	
403(b) Plan only	\$17,000	\$22,500	
457 Plan only	\$17,000	\$22,500	
401(k) & 403(b) Plans	\$17,000	\$22,500	Combined limit
401(k) & 457 Plans	\$34,000	\$45,000	Separate limits each plan \$17,000/\$22,500
403(b) & 457 Plans	\$34,000	\$45,000	Separate limits each plan, \$17,000/\$22,500

If you offer a 457, that plan may provide for additional catch-up provisions in the three years immediately preceding normal retirement. Check with your 457 plan administrator.

The 403(b) also has its own additional catch-up provision called the "15-year rule." Check with your 403(b) provider for more details, if you offer 403(b) plans.

Annual Additions [IRC Section 415(c)] Limits

An employer may choose to match a participant's contributions to any 401(k) or 403(b) plan or provide one-time periodic contributions, if they meet the requirements of the Choice Plan as well as IRS regulations. These are the "IRC Section 415(c)" limits.

In a 401(k) or 403(b) plan, the employer contribution together with any voluntary contributions (salary deferrals) made by the participant may not exceed the participant's gross salary or \$50,000 in 2012, whichever is less. The Section 415 limits are not applicable to 457 plans, which generally cannot receive employer contributions.

If you make or plan to make employer contributions into the PERSI Choice 401(k) Plan on behalf of your employees, call PERSI (1-800-451-8228, or 334-3365 in the Treasure Valley area, ext. 256) to have the arrangement reviewed to make sure it complies with IRS requirements as well as Choice Plan provisions.

Questions on Limits

Because deferral limit issues can be complicated, particularly when a member contributes to multiple plans, PERSI encourages members and employers to consult a qualified tax professional to ensure all applicable limits are not exceeded. If you are unable to resolve questions, please contact PERSI. Although PERSI can provide limited direction and assistance, the member and employer are ultimately responsible for assuring limits are not exceeded. Failure to comply with limits can result in penalties against both the participants and the employer.

Limits Calculator

We provide a Limits Calculator on the PERSI Web site for use in calculating where individual employees are with respect to reaching the annual limits to the voluntary tax-deferred retirement plans. To use the Limits Calculator, go to: http://www.persi.idaho.gov/Choice_Plan/LimitsCalc/.