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Chairperson's Corner What to do When They Move the Goalposts?

by Paul Angelo

This is my first column as your Pension Section Council (PSC) Chair and the timing is somewhat fortuitous. As I begin my third year on the PSC, I am convinced it takes that long for a relative outsider to the SOA structure to figure out how the SOA practice areas and the SOA special interest sections work together. As it happens, the due date for this column followed soon after two events that helped clarify this working relationship.

The first event was the semi-annual meeting of the Council of Section Chairpersons where I got to meet the chairs of the 15 or so sections that comprise the SOA's special interest section structure. The main agenda item was a very informative report and

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Summary of 2002 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts

by Heidi Rackley and Scott Tucker

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IRC Qualified Retirement Plan Limits

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) changed many pension plan dollar limitations for 2002, added others, and changed the future indexing rules for some limits. EGTRRA contains a sunset provision—the new **EGTRRA limits will not apply after 2010**. The table below on page four the new 2002 limits established by EGTRRA (published in [IRS News Release 2001-115](#); republished in [IRS Notice 2001-84](#)), as well as the rounded and unrounded 2002 pre-EGTRRA limits for purposes of tracking the effect of the EGTRRA sunset. The 2002 pre-EGTRRA limits reflect a 2.7% increase in third quarter CPI-U from 2000 to 2001 and are rounded down to multiples of \$50, 500, \$5,000, or \$10,000. Limits that were not affected by EGTRRA are shown in italics.

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Summary of 2002 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts
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<i>IRC Limit</i>	<i>EGTRRA IRC Limits</i>	<i>Pre-EGTRRA IRC Limits</i>				
		<i>Unrounded 2002</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>
401(k) plan elective deferral limit	\$11,000	\$11,268	\$11,000	\$10,500	\$10,500	\$10,000
403(b) plan elective deferral limit	11,000	11,268	11,000	10,500	10,500	10,000
Eligible 457 plan deferral limit	11,000	8,952	8,500	8,500	8,000	8,000
414(v)(2)(B)(i) catch-up contribution limit (plans other than SIMPLE plans)	1,000	N/A	N/A	N/A	N/A	N/A
SIMPLE plan elective deferral limit	7,000	6,778	6,500	6,500	6,000	6,000
414(v)(2)(B)(ii) SIMPLE plan catch-up contribution limit	500	N/A	N/A	N/A	N/A	N/A
408(k)(2)(C) SEP minimum compensation	450	483	450	450	450	400
415(b) defined benefit maximum annuity	160,000	144,873	140,000	140,000	135,000	130,000
415(c) defined contribution maximum annual addition	40,000	36,585	35,000	35,000	30,000	30,000
401(a)(17) and 408(k)(3)(C) compensation limit	200,000	182,925	180,000	170,000	170,000	160,000
401(a)(17) compensation limit for eligible participants in certain governmental plans in effect July 1, 1993	295,000	295,460	295,000	285,000	275,000	270,000
414(q)(1)(B) highly compensated employee and 414(q)(1)(C) top-paid group	90,000	90,368	90,000	85,000	85,000	80,000
416(i)(1)(A)(i) officer compensation for top-heavy plan key employee definition	130,000	72,437	70,000	70,000	67,500	65,000
1.61-21(f)(5) control employee for fringe benefit valuation purposes						
Officer compensation	80,000	80,485	80,000	75,000	75,000	70,000
Employee compensation	160,000	160,970	160,000	155,000	150,000	145,000
409(o)(1)(c) tax-credit ESOP distribution period						
5-year maximum balance	800,000	804,850	800,000	780,000	755,000	735,000
1-year extension	160,000	160,970	160,000	155,000	150,000	145,000

Other Benefit-Related IRC Limits

Qualified transportation fringe benefit limits are adjusted annually after 1999 and medical savings account (MSA) limits are adjusted annually after 1998. The limit on transit pass or commuter highway vehicle transportation was reset for 2002 by the Transportation Equity Act for the 21st Century (PL 105-178). The 2002 limits, published in Rev. Proc. 2001-59, reflect the 3.3% increase in the average CPI-U for the 12 months ending August 31. The qualified transportation fringe benefit limits are rounded down to a multiple of \$5, while the MSA limits are rounded to the nearest multiple of \$50.

<i>Qualified Transportation and MSA Limits</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
132(f) tax-free qualified transportation fringe benefit					
Parking	\$185	\$180	\$175	\$175	\$175
Transit passes or commuter highway vehicle transportation	100 ¹	65	65	65	65
220(c)(2) MSA high deductible health plan — self-only coverage					
Minimum annual deductible	1,650	1,600	1,550	1,550	1,500
Maximum annual deductible	2,500	2,400	2,350	2,300	2,250
Maximum out-of-pocket limit	3,300	3,200	3,100	3,050	3,000
220(c)(2) MSA high deductible health plan — family coverage					
Minimum annual deductible	3,300	3,200	3,100	3,050	3,000
Maximum annual deductible	4,950	4,800	4,650	4,600	4,500
Maximum out-of-pocket limit	6,050	5,850	5,700	5,600	5,500

¹ IRC section 132(f) was amended by the Transportation Equity Act for the 21st Century effective for tax years beginning after 2001.

Qualified long-term care (LTC) premium limits are adjusted annually after 1997. The 2002 limits, also published in [Rev. Proc. 2001-59](#), reflect the 4.5% increase in the medical care component of the CPI from August 2000 to August 2001, and are rounded to the nearest multiple of \$10.

<i>IRC Limit</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
213(d) qualified LTC premium limits					
Age 40 or less	240	230	220	210	210
41 – 50	450	430	410	400	380
51 – 60	900	860	820	800	770
61 – 70	2,390	2,290	2,200	2,120	2,050
Over 70	2,990	2,860	2,750	2,660	2,570
7702B(d)(4) qualified LTC contract per diem limit	210	200	190	190	180

PBGC Guaranteed Benefits

The maximum PBGC guaranteed monthly benefit is adjusted annually on the basis of changes in the Social Security “old law” contribution and benefit base. For a single-employer defined benefit plan terminating in 2002, the maximum guaranteed benefit will be \$3,579.55 per month—a 5.5% increase over the 2001 limit of \$3,392.05. This amount is adjusted if benefit payments start before age 65 or if benefits are paid in a form other than a single-life annuity.

EGTRRA Changes to Federal Income Tax Provisions

EGTRRA reduced marginal tax rates across the board and created a new 10% tax bracket, carved out of the lower portion of the 15% tax bracket. EGTRRA tax provisions will be phased in over several years, including gradual reduction and ultimate repeal of the estate tax (starting in 2002) and the limits on itemized deductions and personal exemptions (beginning in 2006). Marriage penalty relief begins in 2005. The table on page six summarizes the effective dates of key EGTRRA changes. **These changes sunset after 2010.**

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Summary of 2002 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts
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<i>Provision</i>	<i>Pre-EGTRRA</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
<i>Tax Rates</i>	39.6%	39.1%	38.6%		37.6%		35.0%				
	36.0%	35.5%	35.0%		34.0%		33.0%				
	31.0%	30.5%	30.0%		29.0%		28.0%				
	28.0%	27.5%	27.0%		26.0%		25.0%				
	15.0%	10% of first \$6,000 of income for singles or first \$12,000 of income for married couples; 15% for remaining portion of tax bracket							Breakpoints between 10% and 15% rates increased to \$7,000/\$14,000	Breakpoints between 10% and 15% rates indexed for inflation	
<i>Child Credit</i>	\$500	\$600			\$700			\$800		\$1,000	
<i>IRA Limit</i>	\$2,000	\$2,000	\$3,000		\$4,000		\$5,000	\$5,000 Indexed			
<i>IRA Catch-up</i>	N/A	N/A	\$500			\$1,000					
<i>Saver Tax Credit</i>	N/A	N/A	Applicable percentage ¹ of qualified retirement savings contributions up to \$2,000				Expired				
<i>Estate Tax</i>											
<i>Top Rate</i>	55%	55%	50%	49%	48%	47%	46%	45%		Repealed	
<i>Exemption (millions)</i>	\$0.675	\$0.675	\$1.0		\$1.5		\$2.0		\$3.5	Repealed	
Marriage Penalty Relief Beginning in 2005											
<i>Standard deduction for married as % of single</i>						174%	184%	187%	190%	200%	
<i>15% bracket maximum income for married as % of single</i>						180%	187%	193%	200%		
Phase-out of Personal Exemption and Itemized Deductions Beginning in 2006							Phase-out amount is reduced by 1/3	Phase-out amount is reduced by 2/3		Repealed	

¹ Saver Tax Credit applicable percentage is a function of filing status and adjusted gross income (AGI), as shown below:

<u>Applicable Percentage</u>	<u>Married Filing Jointly AGI</u>	<u>Head of Household AGI</u>	<u>Other Filing Status</u>
<u>AGI</u>			
50%	up to \$30,000	up to \$22,500	up to \$15,000
20%	\$30,001 – \$32,500	\$22,501 – \$24,375	\$15,001 – \$16,250
10%	\$32,501 – \$50,000	\$24,376 – \$37,500	\$16,251 – \$25,000
0%	over \$50,000	over \$37,500	over \$25,000

Federal Income Tax Factors

The breakpoints between tax rates (except for the breakpoint between the new 10% bracket and the 15% bracket) and various other federal income tax factors continue to be adjusted annually on the basis of year-to-year changes in the average CPI-U for the 12 months ending August 31—a 3.3% increase, before rounding, for 2002 tax factors. The 2002 rates were published by IRS in Rev. Proc. 2001-59.

Item and Filing Status	2002	2001
Personal Exemption	\$3,000	\$2,900
Standard Deduction		
Single	4,700	4,550
Head of Household	6,900	6,650
Married, Filing Jointly	7,850	7,600
Married, Filing Separately	3,925	3,800
Additional Standard Deduction (for elderly or blind)		
Unmarried	1,150	1,100
Married (each)	900	900
"Kiddie" Deduction	750	750
Breakpoint between 10% and 15% rates		
Single	6,000	6,000
Head of Household	10,000	10,000
Married, Filing Jointly	12,000	12,000
Married, Filing Separately	6,000	6,000
Breakpoint between 15% and 27% rates (27.5% for 2001)		
Single	27,950	27,050
Head of Household	37,450	36,250
Married, Filing Jointly	46,700	45,200
Married, Filing Separately	23,350	22,600
Breakpoint between 27% and 30% rates (27.5% and 30.5% for 2001)		
Single	67,700	65,550
Head of Household	96,700	93,650
Married, Filing Jointly	112,850	109,250
Married, Filing Separately	56,425	54,625
Breakpoint between 30% and 35% rates (30.5% and 35.5% for 2001)		
Single	141,250	136,750
Head of Household	156,600	151,650
Married, Filing Jointly	171,950	166,500
Married, Filing Separately	85,975	83,250
Breakpoint between 35% and 38.6% rates (35.5% and 39.1% for 2001)		
Single	307,050	297,350
Head of Household	307,050	297,350
Married, Filing Jointly	307,050	297,350
Married, Filing Separately	153,525	148,675

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Summary of 2002 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts

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Personal exemptions are currently phased out for taxpayers whose adjusted gross incomes exceed specified amounts (which vary by tax filing status). For 2002 these "threshold amounts" at which phase-out begins and ends are shown below. EGTRRA reduces the phase-out of personal exemptions beginning in 2006 and eliminates the phase-out in 2010.

<i>Filing Status</i>	<i>Phase-Out Begins at</i>	<i>Phase-Out Completed After</i>
Unmarried	\$137,300	\$259,800
Head of Household	171,650	294,150
Married, Filing Jointly	206,000	328,500
Married, Filing Separately	103,000	164,250

Total itemized deductions for 2002 are reduced by 3% of a taxpayer's adjusted gross income in excess of \$137,300 (\$68,650 for married, filing separately), an increase from \$132,950 in 2001 (\$66,475 for married, filing separately). EGTRRA phases out this reduction in itemized deductions beginning in 2006 and eliminates the reduction in 2010.

Certain taxpayers are entitled to an earned income tax credit (EIC) equal to the maximum credit amount reduced by the phase-out amount. The phase-out amount equals the product of the phase-out percentage (based on the number of qualifying children) multiplied by the excess, if any, of the taxpayer's adjusted gross income (modified adjusted gross income for 2001) or earned income, whichever is greater, over the threshold phase-out amount. EGTRRA marriage penalty relief increases the threshold phase-out amount for joint return filers by \$1,000 in 2002 – 2004, by \$2,000 in 2005 – 2007, and by \$3,000 after 2007.

	<i>2002</i>	<i>2001</i>
EIC maximum credit amount		
No qualifying children	\$376	\$364
One qualifying child	2,506	2,428
Two or more qualifying children	4,140	4,008
EIC threshold phase-out amount (and percentage)		
No qualifying children (7.65%)	6,150	5,950
One qualifying child (15.98%)	13,520	13,090
Two or more qualifying children (21.06%)	13,520	13,090
EIC threshold phase-out amount (and percentage) married filing jointly		
No qualifying children (7.65%)	7,150	5,950
One qualifying child (15.98%)	14,520	13,090
Two or more qualifying children (21.06%)	14,520	13,090

Social Security and Supplemental Security Income Amounts

Social Security benefits payable December 31, 2001, increased 2.6%—the increase in CPI-W from the third quarter of 2000 to the third quarter of 2001. The average monthly Social Security benefits before and after the December 2001 COLA are:

<i>Average Monthly Social Security Benefit</i>	<i>After 12/2001 2.6% COLA</i>	<i>Before 12/2001 2.6% COLA</i>
All retired workers	\$874	\$852
Aged couple, both receiving benefits	1,454	1,418
Widowed mother and two children	1,764	1,719
Aged widow(er)	841	820
Disabled worker, spouse, and children	1,360	1,325
All disabled workers	815	794

The 2002 taxable wage base, determined from the change in deemed average annual wages from 1999 to 2000, will increase 5.6%. Other 2002 Social Security and Supplemental Security Income values are:

	<i>2002</i>	<i>2001</i>
Cost-of-living increase	2.6%	3.5%
Average annual wage (2nd preceding year)	\$32,154.82	\$30,469.84
OASDI contribution and benefit base (wage base)	84,900	80,400
“Old law” contribution and benefit base	63,000	59,700
Retirement earnings test exempt amount (annual)		
Under age 65 — all year	11,280	10,680
Attained age 65 (period before the month 65 is attained)	30,000	25,000
Age 65 (birth month and later)	No limit	No limit
Wages needed for a quarter of coverage	870	830
Maximum monthly social security benefit worker retiring in January at age 65	1,660	1,536
Bend-points — PIA formula applied to average indexed monthly earnings (AIME)		
90% of AIME up to	592	561
32% of AIME over first bend-point up to	3,567	3,381
15% of AIME over second bend-point		
Bend-points — maximum family benefit formula applied to worker's PIA		
150% of PIA up to	756	717
272% of PIA over first bend-point up to	1,092	1,034
134% of PIA over second bend-point up to	1,424	1,349
175% of PIA over third bend-point		
SSI federal payment standard (monthly)		
Individual	545	531
Couple	817	796
SSI resources limit		
Individual	2,000	2,000
Couple	3,000	3,000
FICA tax rates		
OASDI employer and employee	6.20%	6.20%
HI employer and employee	1.45%	1.45%
OASDI self-employed	12.40%	12.40%
HI self-employed	2.90%	2.90%
Maximum OASDI employee payroll tax	\$5,263.80	\$4,984.80

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Summary of 2002 IRC, PBGC, Federal Income Tax, Social Security, and Medicare Amounts

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Covered Compensation

Covered compensation—the average OASDI contribution and benefit base for the 35-year period ending with the year the employee attains Social Security retirement age—determines permitted and imputed disparity limits for qualified retirement plans. In lieu of using the actual covered compensation amount, qualified plans may determine permitted or imputed disparity using a rounded covered compensation table published annually by IRS. The 2002 table, published in Rev. Rul. 2001-55, rounds values to the nearest \$3,000, except where they would exceed the 2002 OASDI taxable wage base of \$84,900.

Calendar Year of Birth	Social Security Retirement Age	Calendar Year of Social Security Retirement Age	Covered Compensation		Rounded Covered Compensation	
			2002	2001	2002	2001
1906	65	1971	4,320	4,320	3,000	3,000
1907	65	1972	4,488	4,488	3,000	3,000
1908	65	1973	4,704	4,704	6,000	6,000
1909	65	1974	5,004	5,004	6,000	6,000
1910	65	1975	5,316	5,316	6,000	6,000
1911	65	1976	5,664	5,664	6,000	6,000
1912	65	1977	6,060	6,060	6,000	6,000
1913	65	1978	6,480	6,480	6,000	6,000
1914	65	1979	7,044	7,044	6,000	6,000
1915	65	1980	7,692	7,692	9,000	9,000
1916	65	1981	8,460	8,460	9,000	9,000
1917	65	1982	9,300	9,300	9,000	9,000
1918	65	1983	10,236	10,236	9,000	9,000
1919	65	1984	11,232	11,232	12,000	12,000
1920	65	1985	12,276	12,276	12,000	12,000
1921	65	1986	13,368	13,368	12,000	12,000
1922	65	1987	14,520	14,520	15,000	15,000
1923	65	1988	15,708	15,708	15,000	15,000
1924	65	1989	16,968	16,968	18,000	18,000
1925	65	1990	18,312	18,312	18,000	18,000
1926	65	1991	19,728	19,728	21,000	21,000
1927	65	1992	21,192	21,192	21,000	21,000
1928	65	1993	22,716	22,716	24,000	24,000
1929	65	1994	24,312	24,312	24,000	24,000
1930	65	1995	25,920	25,920	27,000	27,000
1931	65	1996	27,576	27,576	27,000	27,000
1932	65	1997	29,304	29,304	30,000	30,000
1933	65	1998	31,128	31,128	30,000	30,000
1934	65	1999	33,060	33,060	33,000	33,000
1935	65	2000	35,100	35,100	36,000	36,000
1936	65	2001	37,212	37,212	36,000	36,000
1937	65	2002	39,444	39,312	39,000	39,000
1938	66	2004	43,848	43,464	45,000	42,000
1939	66	2005	46,056	45,540	45,000	45,000
1940	66	2006	48,252	47,616	48,000	48,000
1941	66	2007	50,424	49,656	51,000	51,000
1942	66	2008	52,548	51,648	54,000	51,000
1943	66	2009	54,588	53,568	54,000	54,000
1944	66	2010	56,616	55,452	57,000	54,000

1945	66	2011	58,608	57,312	60,000	57,000
1946	66	2012	60,552	59,148	60,000	60,000
1947	66	2013	62,472	60,936	63,000	60,000
1948	66	2014	64,248	62,580	63,000	63,000
1949	66	2015	65,940	64,140	66,000	63,000
1950	66	2016	67,512	65,580	69,000	66,000
1951	66	2017	69,012	66,960	69,000	66,000
1952	66	2018	70,416	68,232	69,000	69,000
1953	66	2019	71,760	69,444	72,000	69,000
1954	66	2020	73,056	70,620	72,000	72,000
1955	67	2022	75,456	72,756	75,000	72,000
1956	67	2023	76,596	73,764	78,000	75,000
1957	67	2024	77,652	74,700	78,000	75,000
1958	67	2025	78,612	75,528	78,000	75,000
1959	67	2026	79,512	76,296	81,000	75,000
1960	67	2027	80,352	77,004	81,000	78,000
1961	67	2028	81,132	77,664	81,000	78,000
1962	67	2029	81,828	78,228	81,000	78,000
1963	67	2030	82,500	78,780	84,000	78,000
1964	67	2031	83,136	79,284	84,000	80,400
1965	67	2032	83,700	79,704	84,000	80,400
1966	67	2033	84,168	80,052	84,000	80,400
1967	67	2034	84,516	80,280	84,900	80,400
1968	67	2035	84,768	80,400	84,900	80,400
1969 or later	67	2036	84,900	80,400	84,900	80,400

Medicare Premiums and Deductibles

The table below shows the increases in Medicare premiums, coinsurance, and deductible amounts from 2001 to 2002.

	2002	2001
Part A — Hospital Insurance		
Inpatient hospital deductible	\$812.00	\$792.00
Coinsurance		
Daily coinsurance payment for 61 – 90 days of inpatient hospital care	203.00	198.00
Coinsurance for up to 60 lifetime reserve days	406.00	396.00
Daily coinsurance payment for 21 – 100 days in a skilled nursing facility following a hospital stay of at least three days	101.50	99.00
Voluntary premium for persons not eligible for monthly benefits	319.00	300.00
Alternative reduced premium for persons with 30 – 39 credits	175.00	165.00
Part B — Medical Insurance		
Annual deductible	100.00	100.00
Monthly premium	54.00	50.00

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