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## Summary of 2003 IRC, PBGC, Federal Income Tax, Social Security and Medicare Amounts

by Heidi Rackley

### Summary

This article summarizes 2003 cost-of-living adjustments related to employee benefit plans, including: (i) Internal Revenue Code (IRC) limits applicable to qualified retirement plans, transportation fringe benefits, adoption assistance programs, medical savings accounts and long-term care plans, (ii) PBGC guaranteed benefits, (iii) federal income tax factors, (iv) Social Security and Supplemental Security Income, (v) Medicare and (vi) covered compensation.

### IRC qualified retirement plan limits

Recent low inflation—the increase in third quarter CPI-U from 2001 to 2002 was only 1.6 percent—combined with the IRC’s rounding rules (limits are rounded down to multiples of \$50, \$500 or \$5,000) kept most 2003 qualified plan limits at their 2002 values. The exceptions are limits set to increase by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). EGTRRA changed many retirement plan dollar limits for 2002, added others and changed the future indexing rules for many limits. (Unless extended by future legislation, the EGTRRA changes will sunset after 2010.) The Job Creation and Worker Assistance Act of 2002 further changed the 409(o)(1)(C) tax-credit ESOP distribution period limits and 408(k)(2)(C)

SEP minimum compensation limit. The table on page 4 shows the rounded and unrounded 2003 limits (IRS published the rounded limits in Notice 2002-71) and the prior three year’s limits.

### Other employee-benefit-related IRC limits

Qualified transportation fringe benefit limits, qualified adoption assistance program limits and medical savings account (MSA) limits for 2003 reflect the 1.6 percent increase in the average CPI-U for the 12 months ending August 31 and are rounded to multiples of \$5, \$10 or \$50. (The Transportation Equity Act for the 21st Century amended IRC Section 132(f), qualified transportation fringe benefit limits, and EGTRRA amended IRC Section 137, qualified adoption assistance program limits, both effective for tax years beginning after 2001.) Qualified long-term care premium and per diem limits reflect the 4.7 percent increase in the medical care component of CPI-U from August 2001 to August 2002 and are rounded to the nearest multiple of \$10. The table on page 5 shows the rounded 2003 limits, published by IRS in Rev. Proc. 2002-70 and the prior four year’s limits.

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## IRC qualified retirement plan limits

IRC Limit	Post-EGTRRA			Pre-EGTRRA	
	2003 Unrounded	2003 Rounded	2002	2001	2000
401(k) and 403(b) plan elective deferral limit <sup>1</sup>	\$12,000	\$12,000	\$11,000	\$10,500	10,500
Eligible 457 plan deferral limit <sup>1</sup>	12,000	12,000	11,000	8,500	8,000
414(v)(2)(B)(i) catch-up contribution limit (plans other than SIMPLE plans) <sup>1</sup>	2,000	2,000	1,000	N/A	N/A
408(p)(2)(E) SIMPLE plan elective deferral limit <sup>1</sup>	8,000	8,000	7,000	6,500	6,000
414(v)(2)(B)(ii) SIMPLE plan catch-up contribution limit <sup>1</sup>	1,000	1,000	500	N/A	N/A
408(k)(2)(C) SEP minimum compensation	457	450	450	450	450
219(b)(1)(A) IRA maximum deductible amount <sup>1</sup>	3,000	3,000	3,000	2,000	2,000
219(b)(1)(B) IRA catch-up contribution amount <sup>1</sup>	500	500	500	N/A	N/A
415(b) defined benefit maximum annuity	162,544	160,000	160,000	140,000	135,000
415(c) defined contribution maximum annual addition	40,636	40,000	40,000	35,000	30,000
401(a)(17) and 408(k)(3)(C) compensation limit	203,160	200,000	200,000	170,000	170,000
401(a)(17) compensation limit for eligible participants in certain governmental plans in effect July 1, 1993	300,160	300,000	295,000	285,000	275,000
414(q)(1)(B) highly compensated employee and 414(q)(1)(C) top-paid group	91,808	90,000	90,000	85,000	85,000
416(j)(1)(A)(i) officer compensation for top-heavy plan key employee definition	132,067	130,000	130,000	70,000	67,500
1.61-21(f)(5) control employee for fringe benefit valuation purposes					
Officer compensation	81,770	80,000	80,000	75,000	75,000
Employee compensation	163,540	160,000	160,000	155,000	150,000
409(o)(1)(C) tax-credit ESOP distribution period					
5-year maximum balance	812,720	810,000	800,000	780,000	755,000
1-year extension	162,544	160,000	160,000	155,000	150,000

<sup>1</sup> 2003 limit is set by statute

## Rounded IRC limits

<b>IRC Limit</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
132(f) tax-free qualified transportation fringe benefit					
Parking	\$190	\$185	\$180	\$175	\$175
Transit passes or commuter highway vehicle transportation	100	100	65	65	65
137 qualified adoption assistance program					
Exclusion for child with special needs	10,160	10,000	6,000	6,000	6,000
Aggregate limit for all taxable years (child without special needs)	10,160	10,000	5,000	5,000	5,000
Phase-out begins at adjusted gross income of	152,390	150,000	75,000	75,000	75,000
220(c)(2) MSA high deductible health plan — self-only coverage					
Minimum annual deductible	1,700	1,650	1,600	1,550	1,550
Maximum annual deductible	2,500	2,500	2,400	2,350	2,300
Maximum out-of-pocket limit	3,350	3,300	3,200	3,100	3,050
220(c)(2) MSA high deductible health plan — family coverage					
Minimum annual deductible	3,350	3,300	3,200	3,100	3,050
Maximum annual deductible	5,050	4,950	4,800	4,650	4,600
Maximum out-of-pocket limit	6,150	6,050	5,850	5,700	5,600
213(d) qualified long-term care premium limits					
Age 40 or younger	250	240	230	220	210
41 — 50	470	450	430	410	400
51 — 60	940	900	860	820	800
61 — 70	2,510	2,390	2,290	2,200	2,120
Over 70	3,130	2,990	2,860	2,750	2,660
7702B(d)(4) qualified long-term care contract per diem limit	220	210	200	190	190

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### 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 2003, the maximum guaranteed benefit will be \$3,664.77 per month — a 2.4 percent increase over the 2002 limit of \$3,579.55. 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. Some of the guaranteed amount may be paid from the plan’s assets, and participants may receive more if the plan is better funded or the PBGC can recover other amounts from the plan sponsor.

### Federal income tax – phase-in of EGTRRA changes

EGTRRA reduced marginal tax rates across the board and created a new 10 percent tax bracket, carved out of the lower portion of the 15 percent 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 6 summarizes the effective dates of key EGTRRA changes. Unless extended by future legislation, the EGTRRA changes will sunset after 2010.

Provision	Pre-EGTRRA	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Tax rates	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		
Child credit	\$500	\$600			\$700			\$800	\$1,000			
Saver tax credit	N/A	N/A	Applicable percentage <sup>1</sup> of qualified retirement savings contributions up to \$2,000				Expired					
Estate tax												
Top rate	55%	55%	50%	49%	48%	47%	46%	45%		Repealed		
Exemption (millions)	\$0.675	\$0.675	\$1.0		\$1.5		\$2.0		\$3.5	Repealed		
<b>Marriage penalty relief beginning in 2005</b>												
Standard deduction for married as % of single						174%	184%	187%	190%	200%		
15% bracket maximum income for married as % of single						180%	187%	193%	200%			
<b>Phase-out of personal exemption and itemized deductions beginning in 2006</b>							Phase-out amount is reduced by 1/3		Phase-out amount is reduced by 2/3		Repealed	

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

Applicable Percentage	Married Filing Jointly AGI	Head of Household AGI	Other Filing Status AGI
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 percent bracket and the 15 percent bracket) and various other federal income tax factors are

adjusted annually on the basis of year-to-year changes in the average CPI-U for the 12 months ending August 31—a 1.6 percent increase, before rounding, for 2003. IRS published the 2003 factors in Rev. Proc. 2002-70.

<b>Item and Filing Status</b>	<b>2003</b>	<b>2002</b>
Personal Exemption	\$3,050	\$3,000
Standard Deduction		
Single	4,750	4,700
Head of Household	7,000	6,900
Married, Filing Jointly	7,950	7,850
Married, Filing Separately	3,975	3,925
Additional Standard Deduction (for elderly or blind)		
Unmarried	1,150	1,150
Married (each)	950	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		
Single	28,400	27,950
Head of Household	38,050	37,450
Married, Filing Jointly	47,450	46,700
Married, Filing Separately	23,725	23,350
Breakpoint between 27% and 30% rates		
Single	68,800	67,700
Head of Household	98,250	96,700
Married, Filing Jointly	114,650	112,850
Married, Filing Separately	57,325	56,425
Breakpoint between 30% and 35% rates		
Single	143,500	141,250
Head of Household	159,100	156,600
Married, Filing Jointly	174,700	171,950
Married, Filing Separately	87,350	85,975
Breakpoint between 35% and 38.6% rates		
Single	311,950	307,050
Head of Household	311,950	307,050
Married, Filing Jointly	311,950	307,050
Married, Filing Separately	155,975	153,525

Personal exemptions are currently phased out for taxpayers whose adjusted gross incomes exceed specified amounts (which vary by tax filing status). For 2003 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.

Total itemized deductions for 2003 are reduced by 3 percent of a taxpayer’s adjusted gross income in excess of \$139,500 (\$69,750 for married, filing separately), an increase from \$137,300 in 2002 (\$68,650 for married, filing separately). EGTRRA phases out this reduction in itemized deductions beginning in

EITC. 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.

**Social Security and Supplemental Security Income (SSI) amounts**

Social Security benefits payable January 1, 2003, will increase 1.4 percent—the increase in CPI-W from the third quarter of 2001 to the third quarter of 2002. The average monthly Social Security benefits before and after the 1.4 Social Security and Supplemental Security Income (SSI) amounts

Filing status	Phase-out begins at	Phase-out completed after
Unmarried	\$139,500	\$262,000
Head of Household	174,400	296,900
Married, Filing Jointly	209,250	331,750
Married, Filing Separately	104,625	165,875

2006 and eliminates the reduction in 2010. Certain taxpayers are entitled to a refundable earned income tax credit (EITC) equal to the maximum credit amount reduced by the phase-out amount. The *earned income amount* is the amount of earned income at or above which the maximum amount of the earned income credit is allowed. 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 or earned income, whichever is greater, over the *threshold phase-out amount*. For tax years beginning after 2001, only taxable earned income (excluding salary reduction contributions under 401(k) plans, cafeteria plans and health or dependent care FSAs) is taken into account when calculating the

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**Personal exemptions are currently phased out for tax payers whose adjusted gross incomes exceed specified amounts.**

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<b>EITC value</b>	<b>2003</b>	<b>2002</b>
<b>Earned income amount</b>		
No qualifying children	\$4,990	\$4,910
One qualifying child	7,490	7,370
Two or more qualifying children	10,510	10,350
<b>Maximum credit amount</b>		
No qualifying children	382	376
One qualifying child	2,547	2,506
Two or more qualifying children	4,204	4,140
<b>Threshold phase-out amount (and percentage)</b>		
No qualifying children (7.65%)	6,240	6,150
One qualifying child (15.98%)	13,730	13,520
Two or more qualifying children (21.06%)	13,730	13,520
<b>Phase out completed</b>		
No qualifying children	11,230	11,060
One qualifying child	29,666	29,201
Two or more qualifying children	33,692	33,178
<b>Threshold phase-out amount (and percentage), married filing jointly</b>		
No qualifying children (7.65%)	7,240	7,150
One qualifying child (15.98%)	14,730	14,520
Two or more qualifying children (21.06%)	14,730	14,520
<b>Phase out completed, married filing jointly</b>		
No qualifying children (7.65%)	12,230	12,060
One qualifying child (15.98%)	30,666	30,201
Two or more qualifying children (21.06%)	34,692	34,178

### Social Security and Supplemental Security Income (SSI) amounts

Social Security benefits payable January 1, 2003, will increase 1.4 percent—the increase in CPI-W from the third quarter of 2001 to the third quarter of 2002. The average monthly Social Security benefits before and after the 1.4 percent COLA are shown in the table below.

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Average Monthly Social Security Benefit	After 1.4% COLA	Before 1.4% COLA
All retired workers	\$ 895	\$882
Aged couple, both receiving benefits	1,483	1,463
Widowed mother and two children	1,838	1,812
Aged widow(er) alone	862	850
Disabled worker, spouse, and children	1,395	1,376
All disabled workers	833	822



The 2003 taxable wage base will increase 2.5 percent, from \$84,900 to \$87,000, determined from the change in deemed average annual wages from 2000 to 2001. The table on page 10 shows this and other indexed 2002 and 2003 Social Security and SSI values.

<b>Social Security/SSI Value</b>	<b>2003</b>	<b>2002</b>
Cost-of-living increase	1.4%	2.6%
Average annual wage (second preceding year)	\$32,921.92	\$32,154.82
OASDI contribution and benefit base (wage base)	87,000	84,900
"Old law" contribution and benefit base	64,500	63,000
Retirement earnings test exempt amount (annual)		
Under full retirement age (full year)	11,520	11,280
Year individual attains full retirement age (period before attaining full retirement age)	30,720	30,000
Wages needed for a quarter of coverage	890	870
Disability thresholds		
Substantial gainful activity — non-blind	800	780
Substantial gainful activity — blind	1,330	1,300
Trial work period	570	560
Coverage thresholds for:		
Domestic employees	1,400	1,300
Election workers	1,200	1,200
Maximum monthly Social Security benefit for a worker retiring at full retirement age in:		
January 2002 (age 65)	1,660	1,536
March 2003 (age 65 and 2 months)	1,741	n/a
Bend-points — PIA formula applied to average indexed monthly earnings (AIME)		
90% of AIME up to		
32% of AIME over first bend-point up to	606	592
15% of AIME over second bend-point	3,653	3,567
Bend-points — maximum family benefit formula applied to worker's PIA		
150% of PIA up to		
272% of PIA over first bend-point up to	774	756
134% of PIA over second bend-point up to	1,118	1,092
175% of PIA over third bend-point	1,458	1,424
SSI federal payment standard		
Individual	552	545
Couple	829	817
SSI resources limit		
Individual	2,000	2,000
Couple	3,000	3,000
SSI student exclusion limits		
Monthly limit	1,340	1,320
Annual limit	5,410	5,340

## Medicare premiums, coinsurance, and deductibles

The table on page 11 shows the increases in Medicare premiums, coinsurance and deductible amounts from 2002 to 2003.

Part A—Hospital Insurance	2003	2002
Inpatient hospital deductible coinsurance	\$840.00	\$812.00
Daily coinsurance payment for 61-90 days of inpatient hospital care	210.00	203.00
Coinsurance for up to 60 life-time reserve days	420.00	406.00
Daily coinsurance payment for 21-100 days in a skilled nursing facility following a hospital stay of at least three days	105.00	101.50
Voluntary premium for persons not eligible for monthly benefits	316.00	319.00
Alternative reduced premium for persons with 30-39 credits	174.00	175.00
Part B—Medical Insurance		
Annual Deductible	100.00	100.00
Monthly Premium	58.70	54.00

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**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.**

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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 2003 table on page 12, published in Rev. Rul. 2002-63, rounds values to the nearest \$3,000. ❧

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Calendar year of birth	Social Security retirement age	Calendar year of Social Security retirement age	Covered compensation		Rounded covered compensation	
			2003	2002	2003	2002
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	39,444	39,000	39,000
1938	66	2004	43,968	43,848	45,000	45,000
1939	66	2005	46,236	46,056	45,000	45,000
1940	66	2006	48,492	48,252	48,000	48,000
1941	66	2007	50,724	50,424	51,000	51,000
1942	66	2008	52,908	52,548	54,000	54,000
1943	66	2009	55,008	54,588	54,000	54,000
1944	66	2010	57,096	56,616	57,000	57,000
1945	66	2011	59,148	58,608	60,000	60,000
1946	66	2012	61,152	60,552	60,000	60,000
1947	66	2013	63,132	62,472	63,000	63,000
1948	66	2014	64,968	64,248	66,000	63,000
1949	66	2015	66,720	65,940	66,000	66,000
1950	66	2016	68,352	67,512	69,000	69,000
1951	66	2017	69,912	69,012	69,000	69,000
1952	66	2018	71,376	70,416	72,000	69,000
1953	66	2019	72,780	71,760	72,000	72,000
1954	66	2020	74,136	73,056	75,000	72,000
1955	67	2022	76,656	75,456	78,000	75,000
1956	67	2023	77,856	76,596	78,000	78,000
1957	67	2024	78,972	77,652	78,000	78,000
1958	67	2025	79,992	78,612	81,000	78,000
1959	67	2026	80,952	79,512	81,000	81,000
1960	67	2027	81,852	80,352	81,000	81,000
1961	67	2028	82,692	81,132	84,000	81,000
1962	67	2029	83,448	81,828	84,000	81,000
1963	67	2030	84,180	82,500	84,000	84,000
1964	67	2031	84,876	83,136	84,000	84,000
1965	67	2032	85,500	83,700	87,000	84,000
1966	67	2033	86,028	84,168	87,000	84,000
1967	67	2034	86,436	84,516	87,000	84,900
1968	67	2035	86,748	84,768	87,000	84,900
1969	67	2036	86,940	84,900	87,000	84,900
1970 or later	67	2037	87,000	84,900	87,000	84,900