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In Depth: Summary of 2005 IRS, PBGC, Federal Income Tax, Social Security and Medicare Amounts

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This article summarizes 2005 cost-of-living adjustments related to employee benefit plans, including: (i) IRS limits applicable to retirement plans, transportation fringe benefits, adoption assistance programs, medical savings accounts, health savings accounts, high-deductible health plans 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.

IRS Retirement Plan Limits

Most 2005 retirement plan limits will increase from their 2004 values, either because they are set to increase by statute or because the 2.73 percent increase in third-quarter CPI-U from 2003 to 2004 was sufficient to increase the rounded limit. The IRS published the 2005 rounded limits in an October 20, 2004, news release. Table 1 on page 5 shows the rounded and unrounded 2005 limits and the prior three years' limits.

Other Employee-Benefit-Related IRS Limits

The 2005 Internal Revenue Code limits for qualified transportation fringe benefits, qualified adoption assistance programs, medical savings accounts (MSAs), health savings accounts (HSAs) and high-deductible health plans (HDHPs) reflect the 2.3 percent increase in the average CPI-U for the 12 months ending August 31. Limits for qualified long-term care premiums and per diem amounts reflect the 4.4 percent increase in the medical care component of CPI-U from August 2003 to August 2004. The IRS published the 2005 rounded limits in Rev. Proc. 2004-71. See Table 2 on page 6.

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 2005, the maximum guaranteed benefit will be \$3,801.14 per month—a 2.8 percent increase over the 2004 limit of \$3,698.86. 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 – Legislative Changes

Federal income tax provisions have been tweaked frequently since 2001, when 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 were originally scheduled to 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), with marriage penalty relief beginning in 2005.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 accelerated a number of EGTRRA's personal income tax cuts, including reductions in tax rates and phase-in of marriage penalty relief beginning in 2003. The Act made a number of temporary changes for 2003 and 2004, including increasing the child tax credit to \$1,000, increasing the amount of income subject to the new 10 percent tax rate, and increasing the alternative minimum tax exemption. The Act also temporarily (through 2008) reduced to 15 percent the top tax rate imposed on corporate dividends received by individuals after 2002 and on individuals' capital gains realized on or after May 6, 2003.

The Working Families Tax Relief Act of 2004 extended certain tax cuts aimed at middle-class Americans, including: (i) increasing the breakpoint between the 10 percent and 15 percent tax rates through 2010, (ii) increasing the child tax credit to \$1,000 through 2009, (iii) accelerating the increase in refundability of the child tax credit to 2004 and including combat pay in earned income for this purpose, (iv) extending marriage penalty relief through 2008 and (v) extending alternative minimum tax relief through 2005. In addition, the Act established a uniform definition of child for purposes of the dependency exemption, child tax credit, earned income credit, dependent care credit and head-of-household filing status.

Table 1

IRS Limit	2005 Unrounded	2005 Rounded	2004	2003	2002
401(k), 403(b), and eligible 457 plan elective deferral limit ¹	\$14,000	\$14,000	\$13,000	\$12,000	\$11,000
414(v)(2)(B)(i) catch-up contribution limit (plans other than SIMPLE plans) ¹	4,000	4,000	3,000	2,000	1,000
408(p)(2)(E) SIMPLE plan elective deferral limit ¹	10,000	10,000	9,000	8,000	7,000
414(v)(2)(B)(ii) SIMPLE plan catch-up contribution limit ¹	2,000	2,000	1,500	1,000	500
408(k)(2)(C) SEP minimum compensation	480	450	450	450	450
219(b)(1)(A) IRA maximum deductible amount ¹	4,000	4,000	3,000	3,000	3,000
219(b)(1)(B) IRA catch-up contribution amount ¹	500	500	500	500	500
415(b) defined benefit maximum annuity	170,656	170,000	165,000	160,000	160,000
415(c) defined contribution maximum annual addition	42,664	42,000	41,000	40,000	40,000
401(a)(17) and 408(k)(3)(C) compensation limit	213,320	210,000	205,000	200,000	200,000
401(a)(17) compensation limit for eligible participants in certain governmental plans in effect July 1, 1993	315,120	315,000	305,000	300,000	295,000
414(q)(1)(B) highly compensated employee and 414(q)(1)(C) top-paid group	96,384	95,000	90,000	90,000	90,000
416(i)(1)(A)(i) officer compensation for top-heavy plan key employee definition	138,658	135,000	130,000	130,000	130,000
1.61-21(f)(5) control employee for fringe benefit valuation purposes					
Officer compensation	85,845	85,000	80,000	80,000	80,000
Employee compensation	171,690	170,000	165,000	160,000	160,000
409(o)(1)(C) tax-credit ESOP distribution period					
5-year maximum balance	853,280	850,000	830,000	810,000	800,000
1-year extension	170,656	170,000	165,000	160,000	160,000

¹ 2005 limit is set by statute.

Table 3 on page 7 summarizes the effective dates of key federal income tax changes made by EGTRRA, the Jobs and Growth Tax Relief Reconciliation Act and the Working Families Tax Relief Act. Unless these changes are extended by future legislation, pre-EGTRRA provisions will be restored after 2010.

Federal Income Tax Factors

The breakpoints between tax rates 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 2.3 percent increase, before rounding, for 2005. The IRS published the 2005 rounded limits in Rev. Proc. 2004-71. See Table 4 on page 8.

(continued on page 6)

Table 2

IRS Limit	2005	2004	2003	2002	2001
132(f) tax-free qualified transportation fringe benefit					
Parking	\$200	\$195	\$190	\$185	\$180
Transit passes or commuter highway vehicle transportation	105	100	100	100	65
137 qualified adoption assistance program					
Exclusion for child with special needs (regardless of expenses incurred)	10,630	10,390	10,160	10,000	6,000
Aggregate limit on expenses incurred for all taxable years (child without special needs)	10,630	10,390	10,160	10,000	5,000
Phase-out begins at adjusted gross income of	159,450	155,860	152,390	150,000	75,000
220(c)(2) MSA high deductible health plan - self-only coverage					
Minimum annual deductible	1,750	1,700	1,700	1,650	1,600
Maximum annual deductible	2,650	2,600	2,500	2,500	2,400
Maximum out-of-pocket limit	3,500	3,450	3,350	3,300	3,200
220(c)(2) MSA high deductible health plan - family coverage					
Minimum annual deductible	3,500	3,450	3,350	3,300	3,200
Maximum annual deductible	5,250	5,150	5,050	4,950	4,800
Maximum out-of-pocket limit	6,450	6,300	6,150	6,050	5,850
223 HSA/HDHP limits - self-only coverage					
Maximum deductible HSA contribution	2,650	2,600			
HDHP minimum annual deductible	1,000	1,000	NA	NA	NA
HDHP maximum out-of-pocket limit	5,100	5,000			
223 HSA/HDHP limits - family coverage					
Maximum deductible HSA contribution	5,250	5,150			
HDHP minimum annual deductible	2,000	2,000	NA	NA	NA
HDHP maximum out-of-pocket limit	10,200	10,000			
213(d) qualified long-term care premium limits					
Age 40 or younger	270	260	250	240	230
41 - 50	510	490	470	450	430
51 - 60	1,020	980	940	900	860
61 - 70	2,720	2,600	2,510	2,390	2,290
Over 70	3,400	3,250	3,130	2,990	2,860
7702B(d)(4) qualified long-term care contract per diem limit	240	230	220	210	200

Personal exemptions are currently phased out for taxpayers whose adjusted gross incomes exceed specified amounts (which vary by tax filing status). These “threshold amounts” at which phase-out begins and ends are shown for 2004 and 2005. EGTRRA reduces the phase out of personal exemptions beginning in 2006 and eliminates it in 2010. See Table 5 on page 8.

Total itemized deductions for 2005 are reduced by 3 percent of a taxpayer’s adjusted gross income in excess of \$145,950 (\$72,975 for married, filing separately), an increase from \$142,700 in 2004 (\$71,350 for married, filing separately). This reduction in itemized deductions is phased out beginning in 2006 and eliminated 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 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 EITC. EGTRRA marriage penalty relief increased the threshold phase-out amount for joint return filers by \$1,000 in 2002–04, by \$2,000 in 2005–07, and by \$3,000 after 2007. The Working Families Tax Relief Act of 2004 allows taxpayers to optionally include combat pay in earned income for purposes of the EITC for 2004 and 2005. See Table 6 on page 9.

Table 3

Provision	Pre-EGTRRA	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Tax rates	39.6%	39.1%	38.6%	35.0%								
	36.0%	35.5%	35.0%	33.0%								
	31.0%	30.5%	30.0%	28.0%								
	28.0%	27.5%	27.0%	25.0%								
	15.0%	15% for portion of bracket above new 10% breakpoint 10% of income up to \$6,000 (single)/\$12,000 (married) in 2001 and 2002; breakpoints increased to \$7,000/\$14,000 in 2003 and indexed for inflation thereafter										
Child credit	\$500	\$600		\$1,000								
Saver tax credit	N/A	N/A	Applicable percentage ¹ of qualified retirement savings contributions up to \$2,000					Expired				
Estate tax Top rate	55%	55%	50%	49%	48%	47%	46%	45%		Repealed		
Estate tax Exemption (millions)	\$0.675	\$0.675	\$1.0		\$1.5		\$2.0		\$3.5	Repealed		
Marriage penalty relief beginning in 2003	200%											
Standard deduction for married as % of single	200%											
15% of bracket maximum income for married as % of single	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	
Alternative minimum tax exemption	Joint return or surviving spouse	\$45,000	\$49,000		\$58,000			\$45,000				
	Other individual	\$33,750	\$35,750		\$40,250			\$33,750				
Top capital gains tax rate	20%			15% (capital gains realized on or after 5/6/03 and before 2009)				20% ²				
Top dividend tax rate	39.6%	39.1%	38.6%	15%				35%				

¹ 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

² Once the provisions of the Jobs and Growth Act expire, a top rate of 18% may apply to certain qualified five-year gains.

Social Security and Supplemental Security Income (SSI) Amounts

The Social Security Administration (SSA) announced on October 19, 2004, that benefits will increase 2.7 percent in January 2005. This is the increase in CPI-W from the third quarter of 2003 to the third quarter of 2004. The average monthly Social Security benefits before and after the 2.7 percent COLA are shown in Table 7 on page 9 and in the SSA's fact sheet.

The 2005 taxable wage base will increase 2.4 percent, from \$87,900 to \$90,000, determined from the

change in deemed average annual wages from 2002 to 2003. Table 8 on page 10 shows this and other indexed 2005 and 2004 Social Security and SSI values.

Medicare Premiums, Coinsurance and Deductibles

On September 3, the Department of Health & Human Services announced a 17 percent increase in the Medicare Part B premiums. (The Part B premium increase may not exceed any beneficiary's cost of living adjustment in his or her Social Security check.)

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Table 4

Item and Filing Status	2005	2004
Personal exemption	\$3,200	\$3,100
Standard deduction		
Single	5,000	4,850
Head of household	7,300	7,150
Married, filing jointly	10,000	9,700
Married, filing separately	5,000	4,850
Additional standard deduction (for elderly or blind)		
Unmarried	1,250	1,200
Married (each)	1,000	950
"Kiddie" deduction	800	800
Breakpoint between 10% and 15% rates ¹		
Single	7,300	7,150
Head of household	10,450	10,200
Married, filing jointly	14,600	14,300
Married, filing separately	7,300	7,150
Breakpoint between 15% and 25% rates		
Single	29,700	29,050
Head of household	39,800	38,900
Married, filing jointly	59,400	58,100
Married, filing separately	29,700	29,050
Estates and trusts (include VEBA trusts)	2,000	1,950
Breakpoint between 25% and 28% rates		
Single	71,950	70,350
Head of household	102,800	100,500
Married, filing jointly	119,950	117,250
Married, filing separately	59,975	58,625
Estates and trusts (include VEBA trusts)	4,700	4,600
Breakpoint between 28% and 33% rates		
Single	150,150	146,750
Head of household	166,450	162,700
Married, filing jointly	182,800	178,650
Married, filing separately	91,400	89,325
Estates and trusts (include VEBA trusts)	7,150	7,000
Breakpoint between 33% and 35% rates		
Single	326,450	319,100
Head of household	326,450	319,100
Married, filing jointly	326,450	319,100
Married, filing separately	163,225	159,550
Estates and trusts (include VEBA trusts)	9,750	9,550

¹ The 10% tax bracket does not apply to estates and trusts.

Table 5

Filing Status	2005		2004	
	Phase-out begins at	Phase-out completed after	Phase-out begins at	Phase-out completed after
Unmarried	\$145,950	\$268,450	\$142,700	\$265,200
Head of household	182,450	304,950	178,350	300,850
Married, filing jointly	218,950	341,450	214,050	336,550
Married, filing separately	109,475	170,725	107,025	168,275

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Table 6

EITC value	2005	2004
Earned income amount		
No qualifying children	\$5,220	\$5,100
One qualifying child	7,830	7,660
Two or more qualifying children	11,000	10,750
Maximum credit amount		
No qualifying children	399	390
One qualifying child	2,662	2,604
Two or more qualifying children	4,400	4,300
Threshold phase out amount (and percentage), unless married filing jointly		
No qualifying children (7.65%)	6,530	6,390
One qualifying child (15.98%)	14,370	14,040
Two or more qualifying children (21.06%)	14,370	14,040
Phase-out completed, unless married filing jointly		
No qualifying children	11,750	11,490
One qualifying child	31,030	30,338
Two or more qualifying children	35,263	34,458
Threshold phase-out amount (and percentage), married filing jointly		
No qualifying children (7.65%)	8,530	7,390
One qualifying child (15.98%)	16,370	15,040
Two or more qualifying children (21.06%)	16,370	15,040
Phase-out completed, married filing jointly		
No qualifying children (7.65%)	13,750	12,490
One qualifying child (15.98%)	33,030	31,338
Two or more qualifying children (21.06%)	37,263	35,458

Table 7

Average Monthly Social Security Benefit	After 2.7% COLA	Before 2.7% COLA
All retired workers	\$955	\$930
Aged couple, both receiving benefits	1,574	1,532
Widowed mother and two children	1,979	1,927
Aged widow(er) alone	920	896
Disabled worker, spouse and children	1,497	1,458
All disabled workers	895	871

Table 9 on page 10 shows the increases in premiums, deductibles and coinsurance amounts to be paid by Medicare beneficiaries from 2004 to 2005.

Covered Compensation

For qualified retirement plans, the permitted and imputed disparity limits are based on 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. 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 the IRS. The 2005 table (Table 10 on page 11), published in Rev. Rul. 2004-104, rounds values to the nearest \$3,000 (and also shows unrounded values ex-

tending back to 1907). The IRS rounds Social Security retirement ages up to the next higher integer for covered compensation purposes, even though the actual Social Security full retirement age increases in two-month increments. ♦

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Table 8

Social Security/SSI Value		
Cost of living increase	2.7%	2.1%
Average annual wage (second preceding year)	\$34,064.95	\$33,252.09
OASDI contribution and benefit base (wage base)	90,000	87,900
“Old law” contribution and benefit base	66,900	65,100
Retirement earnings test exempt amount (annual)		
Under full retirement age (full year)	12,000	11,640
Year individual attains full retirement age (period before attaining full retirement age)	31,800	31,080
Wages needed for a quarter of coverage	920	900
Disability thresholds		
Substantial gainful activity—non-blind	830	810
Substantial gainful activity—blind	1,380	1,350
Trial work period	590	580
Coverage thresholds for:		
Domestic employees	1,400	1,400
Election workers	1,200	1,200
Maximum monthly Social Security benefit for a worker retiring at full retirement age (age 65 and 4 months for those born in 1939, age 65 and 6 months for those born in 1940)	1,939	1,825
Bend-points—PIA formula applied to worker’s average indexed monthly earnings (AIME)		
90% of AIME up to	627	612
32% of AIME over first bend-point up to	3,779	3,689
15% of AIME over second bend-point	1,508	1,472
Bend-points—Maximum family benefit formula applied to worker’s PIA		
150% of PIA up to	801	782
272% of PIA over first bend-point up to	1,156	1,129
134% of PIA over second bend-point up to	1,508	1,472
15% of PIA over third bend-point		
SSI federal payment standard		
Individual	579	564
Couple	869	846
SSI resources limit		
Individual	2,000	2,000
Couple	3,000	3,000
SSI student exclusion limits		
Monthly limit	1,410	1,370
Annual limit	5,670	5,520

Table 9

Part A—Hospital Insurance	2005	2004
Inpatient hospital deductible	\$912.00	\$876.00
Coinsurance		
Daily coinsurance payment for 61–90 days of inpatient hospital care	228.00	219.00
Coinsurance for up to 60 lifetime reserve days	456.00	438.00
Daily coinsurance payment for 21–100 days in a skilled nursing facility following a hospital stay of at least 3 days	114.00	109.50
Voluntary premium for persons not eligible for monthly benefits	375.00	343.00
Alternative reduced premium for persons with 30–39 credits	206.00	189.00
Part B—Medical Insurance	2005	2004
Annual deductible	110.00	100.00
Monthly premium	78.20	66.60