

Stephens

Stephens Insurance, LLC

Stephens Insurance, LLC

111 Center Street

Little Rock, Arkansas 72201

(800) 852-5053



2012 INFLATION ADJUSTMENTS

Following an October 20 announcement by the IRS and an October 19 announcement by the Social Security Administration, we now know most of the dollar amounts that employers will need to administer their benefit plans for 2012. And unlike the past two years, many of these amounts will actually be adjusted *upward* to account for inflation. The key dollar amounts for retirement plans, health savings accounts, and Social Security benefits are shown on this [card](#).

Sponsors of 401(k) plans may welcome some of the new numbers, which are not only slightly higher than their 2011 counterparts, but also "rounder." For instance, the annual 401(k) *deferral* limit will increase from \$16,500 to \$17,000, the *overall* limit on annual additions to a participant's account will go from \$49,000 to \$50,000, and the annual *compensation* limit will increase from \$245,000 to \$250,000. (The annual catch-up contribution limit - \$5,500 - will remain unchanged for 2012.)

Although the annual compensation threshold used in identifying highly compensated employees (HCEs) will increase (from \$110,000 to \$115,000), employers will not actually use the higher amount until they need to identify their HCEs for 2013. That's due to the "look-back" nature of the HCE definition. In identifying HCEs for 2012, employers should continue to look at employees who earned at least \$110,000 in 2011 (as well as 5% owners in either 2011 or 2012).

There will be no increase in any of the limits on contributions to individual retirement accounts. The maximum contribution to a health savings account will increase slightly - from \$3,050 to \$3,100 for individual coverage, and from \$6,150 to \$6,250 for family coverage. The maximum HSA *catch-up* contribution will remain unchanged (at \$1,000), as will the minimum HSA deductibles (\$1,200 and \$2,400 for individual and family coverages, respectively).

Social Security recipients will enjoy a 3.6% benefit increase in 2012, a welcome change from two consecutive years with no increase. To help pay for this benefit increase, however, the Social Security taxable wage base will *also* increase - from \$106,800 to \$110,100.

A question yet to be answered is whether employees will continue to enjoy a reduction in the long-standing 6.2% "OASDI" tax rate. For 2011, that rate was temporarily reduced by two percentage points (to 4.2%), as a way of helping to stimulate the economy. The Obama Administration has recommended a further reduction for 2012, cutting the usual rate in half (to 3.1%). Although congressional Republicans may not go along with such a reduction, there is a better chance of the 4.2%

rate remaining in effect for 2012. (In any event, the *employer* OASDI tax rate will remain at 6.2%).

Kenneth A. Mason, Partner
Spencer Fane Britt & Browne, LLP

This notification is brought to you by your Member Firm of United Benefit Advisors – a member-owned alliance of more than 140 premier independent benefit advisory firms and one of the nation's five largest employee benefits advisory organizations – and Spencer Fane Britt & Browne LLP, with offices throughout the Midwest and more than a century of experience providing legal counsel. This publication is designed to provide accurate and authoritative information. It is distributed with the understanding that the author, publisher and editors are not rendering legal or other professional advice or opinions on specific matters, and accordingly, assume no liability in connection with its use. The choice of a lawyer is an important decision and should not be made solely upon advertisements. Past results afford no guarantee of future results. Every case is different and must be judged on its own merits.

UBA also co-sponsors an informative webinar series designed to help employers anticipate emerging regulatory issues and stay abreast of the latest human resource trends and best practices. For more information, contact your local UBA Member Firm today.



Shared Wisdom. Powerful Results.®



Stephens Insurance, LLC
An Affiliate Company of Stephens Inc.

Toll Free 800-852-5053

www.stephensinsurance.com

Arkansas Insurance License #301051