

# THE BENEFIT BULLETIN

## FAST FACTS ABOUT RETIREMENT PLANS

The following article contains general plan facts and is intended for informational purposes only. To ensure that your plan contains specific provisions outlined in this and future articles, please contact your third party administrator or plan ERISA attorney.

### **Due Dates and Contribution Limitations**

Federal law establishes numerous restrictions that apply to retirement plans each year. These restrictions affect every aspect of a plan including contribution limitations, nondiscrimination testing requirements, annual reporting requirements, etc. While these restrictions may seem overwhelming at first, understanding the contribution limits and tax deadlines that affect a retirement plan can be very beneficial to an employer while also helping them to avoid making costly mistakes.

**Deferral Limit.** Federal law limits how much salary can be deferred by an employee into a 401(k) plan each calendar year. For 2007, that limit is the lesser of 100% of compensation or \$15,500. A plan can permit participants who are age 50 or over at the end of the calendar year to make additional contributions, called “catch-up contributions”. The catch-up contribution limit for 2007 is \$5,000. It is important to note, however, that the plan language may apply more restrictive deferral limitations. For example, the plan document could limit deferrals to 50% of compensation, not to exceed the federal limit, stated above. In addition, the amount that a Highly Compensated Employee (as defined) may defer from compensation may be limited based upon the results of certain annual plan nondiscrimination tests.

**415 Limit.** Federal law also sets limits on the total contributions (employee salary deferrals and employer contributions combined) deposited to a participant’s account in the plan. The limitation is on a participant level. This limit, called the “annual addition limit” or “415 limit”, is the lesser of the federal limit in effect for the year (\$45,000 for 2007) or 100% of compensation. If catch-up deferral contributions are made, a participant’s annual contribution is allowed to exceed the 415 limit.

**Maximum Deductible Employer Contribution.** On a plan level, the maximum deductible employer contribution effectively restricts an employer’s total contribution during a plan year. The deduction is limited to 25% of eligible compensation paid to eligible participants for the year. If the 25% threshold is reached before the 415 limit is reached, then no further contributions should be contributed to the plan by the employer, and vice versa.

**Employer Matching or Profit Sharing Contributions.** The deadline for an employer to deposit matching or profit sharing contributions is generally the due date of the employer’s tax return (including extensions.)

**Compensation Limit.** For 2007, the maximum individual compensation that can be considered for determining a participant’s contributions and benefits is \$225,000. This amount increases to \$230,000 in 2008.

**ADP/ACP Refunds.** Federal law also limits how much can be deposited into the plan account of an HCE. The amount contributed to HCEs is tested by the Actual Deferral Percentage/Actual Contribution Percentage test (ADP/ACP test). Refunds related to failure of the ADP/ACP test must be made within 2 ½ months after the end of the plan year in order for the company to avoid paying an excise tax, but must ultimately be refunded within 12 months of the end of the plan year.

**Annual Reporting Requirements.** With few exceptions, employers that maintain a qualified retirement plan are required to file an annual report with EBSA each year. The IRS Form 5500 or 5500EZ, which satisfies this requirement, is due by the last day of the 7<sup>th</sup> month following the end of the plan year. This deadline can be extended an additional 2 ½ months. If the form is not filed by the extended due date, the Department of Labor can assess penalties up to \$1,100 per day and the IRS can assess penalties of \$25 per day until the return is filed.

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