

2006 Plan Limit Changes

The Internal Revenue Service (IRS) recently announced new limits for 2006 that affect employee health and welfare plans and retirement plans, as well as the new Social Security wage base.

INCREASED HSA LIMITS

Effective January 1, 2006, the IRS will allow new maximum contribution levels for Health Savings Accounts (HSAs) and out-of-pocket spending limits for HSA-qualified High Deductible Health Plans (HDHPs). These amounts have been indexed for cost-of-living adjustments.

The monthly limitation on tax deductibility for coverage under a HDHP (as of the first day of such month) is 1/12 of the lesser of (a) the HDHP's annual deductible, or (b) the applicable maximum HSA contribution limit. The 2005 limits and corresponding 2006 limits for individual and family coverages are compared in the chart below.

HDHP or HSA Variable	2005	2006
Individual coverage minimum deductible	\$1,000	\$1,050
Individual coverage maximum out-of-pocket	\$5,100	\$5,250
Individual coverage maximum HSA contribution	\$2,650	\$2,700
Family coverage minimum deductible	\$2,000	\$2,100
Family coverage maximum out-of-pocket	\$10,200	\$10,500
Family coverage maximum HSA contribution	\$5,250	\$5,450

RETIREMENT PLAN CHANGES

In 2006, the maximum amount that can be contributed to a 401 (k) plan is \$15,000, although plan sponsors may impose a lower limit. The catch-up contribution limit (only for those over 50 years old) is \$5,000.

2006 Retirement Plan Limits	
401 (k) salary deferral limit	\$15,000
401 (k) catch-up contribution	\$5,000
Defined contribution annual limit	\$44,000
Highly compensated employee	\$100,000
Defined benefit: annual benefit limit	\$175,000
Annual compensation limit	\$220,000

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CONTRIBUTION CHANGES TO FLEX ACCOUNTS

For dependent care accounts, the maximum contribution amount remains \$5,000 per year. For transit benefit accounts, the monthly maximum for parking increases to \$205; the monthly maximum for transit increases to \$105. There are no limit changes to healthcare accounts.

2006 Flex Account Limits

Dependent care	\$5,000
Qualified parking expenses (monthly)	\$205
Transit pass and vanpooling limit (monthly)	\$105

FICA TAX WAGE BASE CHANGE

This year, highly-paid wage earners will see a moderate increase in the wage base on which Social Security taxes are due. The 2006 wage base of \$94,200 is \$4,200 higher than the 2005 amount, and the maximum additional Social Security tax that might be collected on someone earning above the 2005 wage base is \$260.40.

Plan administrators and sponsors must ensure that plan documents and materials are up to date, and they must communicate the new limits to employees. Contact your Mesirow Financial representative if you have any further questions.

This article is intended as an overview and should not be viewed as legal or tax advice. Please consult with your attorney or tax advisor if you have any questions.