

**2003 EMPLOYEE BENEFIT PLAN DOLLAR LIMITS**

The Internal Revenue Service has announced the following year 2003 dollar limits for employee benefit plans:

1. Maximum Benefits for Defined Benefit Plans. The annual limitation on benefits payable from a defined benefit pension plan remains unchanged at the lesser of 100% of average compensation for the participant's high-three-years or \$160,000. For participants who separated from service before January 1, 2003, the high-three-year compensation limitation for defined benefit plans is computed by multiplying the participant's high-three-year compensation, as adjusted through 2002, by 1.0159.
2. Maximum Contributions for Defined Contribution Plans. The defined contribution plan annual contribution limit remains unchanged at the lesser of 100% of the participant's compensation or \$40,000.
3. Limit on Salary Deferral Contributions. The annual limitation on salary deferral contributions under plans maintained pursuant to Sections 401(k) and 403(b) of the Internal Revenue Code of 1986, as amended (the "Code") has been increased from \$11,000 to \$12,000. The annual limitation on salary deferral contributions under plans maintained pursuant to Section 457 of the Code also has been increased from \$11,000 to \$12,000.
4. Limit on Salary Reduction Amount for a SIMPLE Retirement Account. The maximum salary reduction amount for a SIMPLE retirement account maintained pursuant to Section 408(p) of the Code has been increased from \$7,000 to \$8,000.
5. Catch-Up Limitation. The dollar limitation for catch-up contributions to an applicable employer plan (other than a SIMPLE plan or SIMPLE retirement account) such as a 401(k) plan for individuals age 50 or over has been increased from \$1,000 to \$2,000. The dollar limitation for catch-up contributions to a SIMPLE plan or SIMPLE retirement account for individuals age 50 or over has been increased from \$500 to \$1,000.
6. Compensation Threshold for Highly-Compensated Employees. The compensation threshold for the definition of "highly-compensated employee" remains unchanged at \$90,000. (Thus, an employee will be considered highly compensated in a year if, at any time during the year or the preceding year, the employee was a 5% owner or if, during the preceding year, the employee had compensation from the employer in excess of \$90,000. At the employer's election, such threshold can be applied solely to those employees who were also in the "top-paid group"—that is, the top 20% of employees—during the preceding year.)

7. Maximum Plan Compensation. The maximum amount of annual compensation which may be taken into account for employee benefit plan purposes remains unchanged at \$200,000.
8. Key Employee Definition Limitation. The dollar limitation for the definition of key employee in a top-heavy plan remains unchanged at \$130,000.
9. Amount of Tax-Credit ESOP Maximum Balance and Amount Necessary for Lengthening of Five-Year Period. The dollar amount of a participant's account which is necessary for a participant to lengthen the period of distributions under a tax-credit employee stock ownership plan (an "ESOP") has been increased from \$800,000 to \$810,000 (the "ESOP maximum balance"). The dollar amount by which a participant's account balance must exceed the ESOP maximum balance in order to lengthen the five-year distribution period remains unchanged at \$160,000.
10. Qualified Transportation Fringe Benefit Limitation. The maximum monthly limitation on the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass remains

unchanged at \$100. The monthly limitation on the fringe benefit exclusion amount for qualified parking has increased from \$185 to \$190.

11. Medical Savings Account Limitations. The term "high deductible health plan" in the case of self-only coverage means a health plan which has an annual deductible that is not less than \$1,700 and not more than \$2,500 and under which the annual out-of-pocket expenses required to be paid (other than premiums) for covered benefits do not exceed \$3,350. The term "high deductible health plan" in the case of family coverage means a health plan which has an annual deductible that is not less than \$3,350 and not more than \$5,050 and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits do not exceed \$6,150.

In addition, the Social Security Administration has announced that the taxable wage base for Social Security in the year 2003 has been increased from \$84,900 to \$87,000.

Should you have any questions about this Alert, please contact the Kirkland & Ellis employee benefits attorney with whom you normally work, or any of the following:

Chicago

Vicki V. Hood  
(312/861-2092)

Toni B. Merrick  
(312/861-2461)

Alexandra Mihalas  
(312/861-2104)

Robert R. Zitko  
(312/861-2058)

New York

Patrick C. Gallagher  
(212/446-4998)

Washington D.C.

Thomas D. Yannucci  
(202/879-5056)

Los Angeles

Jeffrey S. Davidson  
(213/680-8422)

London

Samuel A. Haubold  
(4420-7816-8740)

*This publication is distributed to clients and friends with the understanding that the author, publisher and distributor are not rendering legal, accounting, or other professional advice or opinions on specific facts or matters and, accordingly, assume no liability whatsoever in connection with its use. Pursuant to Rules 7.2 to 7.4 of the Illinois Rules of Professional Conduct, this publication may constitute advertising material.*

Copyright © 2002 KIRKLAND & ELLIS. All rights reserved.