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In 2010 IRS could cut 401(k) contribution limit to \$16,000

By Sandra Block, USA TODAY

Low inflation has made food and gas more affordable during the recession, but there's a downside: Social Security beneficiaries probably won't get a raise next year, and the IRS may reduce the amount workers can contribute to their 401(k) plans.

The IRS will announce 2010 contribution limits for 401(k) plans in October, based on a formula tied to the inflation rate in the third quarter vs. the year-ago quarter. For 2009, most workers can contribute up to \$16,500 to their 401(k) plans, plus an additional \$5,500 if they're 50 or older.

Unless inflation picks up in August and September, the IRS could be forced to reduce the cutoff to \$16,000 in 2010, according to an analysis by Mercer, a human resources consultant. The threshold for catch-up contributions could be reduced to \$5,000. This would mark the first time the IRS has reduced 401(k) contribution limits.

The IRS is reviewing the relevant law, IRS spokeswoman Nancy Mathis said in an e-mail. With some inflation figures still outstanding, it's too early to speculate on limits for 2010, she said. In September 2008, inflation was 4.94%, because of energy costs. It's been negative since March, though.

The average 401(k) plan fell 27% in 2008, Fidelity Investments says. Any reduction in the amount workers can save — at a time when they're struggling to recover from painful bear market losses — will spark a fierce political backlash, predicts John Carl, president of the Retirement Learning Center, a retirement-plan consultant.

Unless Congress changes the law, the IRS may have no choice, says Bill McClain, senior consultant for Mercer. "A strict interpretation of the code could lead them to believe that's their only option," he says.

A negative inflation rate also means that Social Security beneficiaries may not receive a cost-of-living adjustment in 2010 or 2011, according to a forecast from the trustees who oversee Social Security. That would mark the first time seniors haven't received a cost-of-living increase since the adjustments were adopted in 1975. The [Social Security Administration](#) will announce next year's adjustment in October.

By law, Social Security benefits can't decline. But because premiums for the Medicare drug program are expected to increase next year by 11%, seniors who have them deducted from their benefits will see a drop in payments, says Barbara Kennelly, president of the National Committee to Preserve Social Security and Medicare.



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