

Retirement Plan and Social Security COLAs for 2009

Every year, certain cost-of-living adjustments (COLAs) are announced that may increase what you can contribute to your retirement plan and IRA. Social Security benefit amounts rise and other figures related to Social Security change as well. (The 5.8% increase in benefits is the largest since 1982.)

Here are some of the those numbers and others that you will find useful as you do your retirement and Social Security planning.

Maximum retirement plan contribution limits

Maximum IRA/Roth IRA contributions: \$5,000

Maximum IRA/Roth IRA contributions for those age 50 or older: \$6,000

Eligibility for Roth IRA contributions phase out range:

for singles: between \$105,000 and \$120,000

for marrieds filing a joint return: between \$166,000 to \$176,000

For contributions to a traditional IRA, the deduction phase-out range for those covered by a retirement plan at work between:

\$166,000 and \$176,000 if only one active participant spouse

\$89,000 and \$109,000 if both spouses active participants

\$55,000 and \$65,000 for singles and heads of households

401(k) contribution limit: \$16,500

401(k) contribution limit for those age 50 or older: \$22,000

Social Security

Tax rate for employees: 7.65%

Tax rate for self-employed: 15.30%

Maximum earnings taxable:

Social Security wage base: \$106,800

Medicare wage base: no limit

Of the estimated 164 million workers who will pay Social Security taxes in 2009, about 11 million will pay higher taxes as a result of the increase in the taxable maximum.

Retirement earnings test exempt amounts:

Under full retirement age: \$14,160

(\$1 in benefits is withheld for every \$2 in earnings above the limit.)

For the year in which full retirement age is reached: \$37,680

(\$1 in benefits is withheld for every \$3 in earnings above the limit, but only for months prior to reaching full retirement age.)

After full retirement age is reached: no limit

Maximum Social Security benefit, at full retirement age: \$2,323 per month

Taxation of Social Security benefits:

Singles with a “provisional income”*

below \$25,000: no tax on benefits

from \$25,000 to \$34,000: tax on 50% of benefits

over \$34,000: tax on up to 85% of benefits

Marrieds filing a joint return with a “provisional income”*

below \$32,000: no tax on benefits

from \$32,000 to \$44,000: tax on 50% of benefits

over \$44,000: pays tax on up to 85% of benefits

*The IRS defines “provisional income” as your modified adjusted gross income (MAGI) plus nontaxable interest plus one-half of your Social Security benefits. (MAGI is adjusted gross income plus tax-exempt income.)

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