

Methodology for Calculating Cost-of-Living Increases under § 415(d) of the Internal Revenue Code

Section 415 of the Internal Revenue Code (Code) provides for dollar limitations on benefits and contributions under qualified retirement plans. It also requires that the Commissioner annually adjust these limits for cost-of-living increases.

Calculation Methodology

To calculate the cost-of-living increases for any particular year, the Consumer Price Index for All Urban Consumers (CPI-U) must be obtained from the Bureau of Labor Statistics, U.S. Department of Labor, for the three months of the calendar quarter beginning July 1 (i.e., July, August, and September) of the previous year. The sum of the three indices is then compared to the sum of the indices for the three months of the base period specified in the Code. The quotient of these sums is rounded to four decimal places. This result is multiplied by the given dollar limitation. Finally, if this result is an exact multiple of the dollar multiple specified in the rounding convention for that limitation in the Code, the result obtained is the new dollar limitation; otherwise, the result is rounded to the next lowest multiple specified for that limitation in the Code to obtain the new dollar limitation.

For example, to calculate the dollar limitation under § 415(b)(1)(A) applicable for 2009, you divide the sum of the CPI-U's for the three months of the calendar quarter beginning July 1, 2008 (i.e., 657.833¹) by the sum of the CPI-U's for the three months of the calendar quarter beginning July 1, 2001 (i.e., 533.3), the base period specified in the Code. The result is 1.2335. The dollar limitation under § 415(b)(1)(A) (i.e., \$160,000) is multiplied by 1.2335. The result is \$197,360. Since this result is not an exact multiple of \$5,000 (the dollar multiple specified in § 415(d)(4)(A) of the Code), the result is rounded to the next lowest multiple of \$5,000, which is \$195,000. This final result is the dollar limitation under § 415(b)(1)(A) applicable for 2009.

¹ Starting in January 2007, the Bureau of Labor Statistics began reporting the CPI-U rounded to thousandths rather than tenths. According to information in its notice concerning this change, the Bureau indicated that it had no intention of modifying historical CPI-U's.

The dollar limitations for the 2009 tax year are listed below:

Code or Regulation Section	Limitation	Unrounded Limitation
§ 415(b)(1)(A)	\$195,000	\$197,360
§ 415(c)(1)(A)	\$49,000	\$49,340
§ 402(g)(1)	\$16,500	\$16,707
§ 409(o)(1)(C)(ii)	\$195,000	\$197,360
	\$985,000	\$986,800
§ 414(q)(1)(B)	\$110,000	\$111,472
§ 414(v)(2)(B)(i)	\$5,500	\$5,569
§ 414(v)(2)(B)(ii)	\$2,500	\$2,785
§ 416(i)(1)(A)(i)	\$160,000	\$160,355
§ 401(a)(17)	\$360,000	\$364,460
(Governmental Plan Transition)	\$245,000	\$246,700
§ 404(l)	\$245,000	\$246,700
§ 408(k)(2)(C)	\$550	\$555
§ 408(k)(3)(C)	\$245,000	\$246,700
§ 408(k)(6)(D)(ii)	\$245,000	\$246,700
§ 408(p)(2)(E)	\$11,500	\$11,565
§ 457(e)(15)	\$16,500	\$16,707
§ 1.61-21(f)(5)(i)	\$95,000	\$99,280
§ 1.61-21(f)(5)(iii)	\$195,000	\$198,560

The compensation limitation of § 415(b)(1)(B) is calculated in a similar manner. For a participant separating from service on or before December 31 of a given year, the participant's compensation limitation for the following calendar year is computed by multiplying the participant's compensation limitation, as adjusted through the given calendar year, by a factor provided by the Service. This factor is the quotient of the sum of the CPI-U's for the calendar quarter beginning July 1 of the given year over the sum of the CPI-U's for the calendar quarter beginning July 1 of the previous year, rounded to four decimal places. For example, the 2009 factor is calculated by dividing the sum of the indices for the calendar quarter beginning July 1, 2008 (i.e., 657.833) by the sum of the indices for the calendar quarter beginning July 1, 2007 (i.e., 624.706). The result is 1.0530, which is the 2009 factor. Therefore, for a participant separating from service on or before December 31, 2008, the participant's compensation limitation for 2009 is computed by multiplying the participant's compensation limitation, as adjusted through 2008, by the 2009 factor.