

A Further Update on EGTRRA's Retirement Plan Enhancements

The recently passed Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) included changes that will enhance retirement plans for participants and plan sponsors. Most of these changes will be effective for tax years beginning after December 31, 2001.

For 403(b) plans, profit-sharing and defined contribution pension plans including 401(k) plans, SEPs and SARSEPs, the total maximum contribution limit (also technically referred to as the 415(c) limit) increases to the lesser of \$40,000 or 100% of compensation in 2002.

For participants in 457(b), 401(a), 401(k) and 403(b) plans, below is a summary of some of the changes that may affect your retirement plans and contracts. You should check with your employer to see how these changes will affect plans in which you participate.

- **Increased maximum elective deferral limit.** The annual limits to the maximum elective deferral contributions for participants under a 401(k), 403(b) or 457(b) plan are indicated below:

Current Law	New Law	
	For Taxable Years	Maximum Elective Deferral Amount
The maximum elective amount for 2001 was \$10,500 for 403(b) and 401(k), and \$8,500 for 457. Future increases subject to cost-of-living adjustments will be in \$500 increments.	2002	\$11,000
	2003	\$12,000
	2004	\$13,000
	2005	\$14,000
	2006	\$15,000

Note that these rules also apply to grandfathered SARSEPs.

- **New catch-up contributions.** Participants in 403(b), governmental 457(b) and 401(k) plans who are age 50 or older will be able to defer \$1,000 in 2002 to their plans as a catch-up contribution in addition to their regular elective deferral contribution. The annual catch-up contribution limit will increase each year as indicated below:

Current Law	New Law	
	Year	Annual Catch Up Limit
No provision.	2002	\$1,000
	2003	\$2,000
	2004	\$3,000
	2005	\$4,000
	2006	\$5,000

Note: The "age 50" catch-up contribution amount for participants in 403(b) plans can be used in addition to the special "15 years of service" catch-up contribution (generally an extra \$3,000 for five years). The special "three years prior to retirement" catch-up contribution under eligible governmental 457(b) plans, however, may not be used if the "age 50" catch-up contribution is used.

Other Changes to 403(b) and 457 Plans

- **Elimination of defined benefit plan contributions** as prior contributions in the maximum exclusion allowance formula used to determine maximum

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allowable deferral contribution to a 403(b) plan. For participants who have not contributed the maximum for 2001 (generally \$10,500), this change in the tax law may result in larger allowable deferral contributions to their 403(b) plan.

- **Increased and liberalized contribution formulas.** In 2002, the percentage-of-compensation contribution limit for these plans (i.e., 33-1/3% for all 457 plans, and 25% for 401(a), 401(k) and 403(b) plans) will be increased to 100% of compensation.
- **Elimination of coordination requirement for 457 plans.** Starting in 2002, the maximum contribution to a 457(b) plan will no longer have to be reduced by an elective deferral contribution to a grandfathered SARSEP, a SIMPLE IRA, a 401(k) plan and/or a 403(b) plan. In fact, in 2002, an employee who is eligible to participate in a 403(b) plan (or a 401(k) plan) and a 457(b) plan may con-

tribute the maximum elective deferral contribution to both plans, the 401(k) or 403(b) and the 457(b) plan, for a combined contribution of \$22,000. If a person participates in both a 457(b) plan and a SIMPLE IRA, the maximum elective deferral contribution to both plans in 2002 is \$18,000.

- **Elimination of the maximum exclusion allowance (MEA).** The MEA limit applicable only to 403(b) plans will be eliminated in 2002.
- **Increase in total employer and employee contributions under Internal Revenue Code Section 415(c).** For 403(b) plans, profit-sharing and defined contribution pension plans including 401(k) plans, SEPs and SARSEPs, the total maximum contribution limit (also technically referred to as the 415(c) limit) increases to the lesser of \$40,000 or 100% of compensation in 2002. This changes from the limit of the lesser of 25% of com-

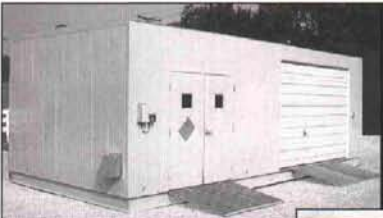
ensation or \$35,000 in 2001. Additionally, the maximum compensation that can be considered in calculating contributions to these plans increases from \$170,000 in 2001 to \$200,000 in 2002.

- **Portability.** Beginning in 2002, eligible rollover distributions from a 401(a) (including 401(k) plans), 403(b) plans, governmental 457(b) plans, and traditional IRAs (including SEPs, SARSEPs and certain SIMPLE IRAs) can be rolled into each other. Certain rollovers will have to be accounted for separately (segregated) and additional requirements may apply to some rollovers.


For IRA Participants


- **Increase in IRA contribution limit.** The annual contribution limit to a traditional or Roth IRA will increase as indicated below.

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Current Law	New Law	
Individuals who meet eligibility requirements were permitted to contribute up to \$2,000 (or 100% of earned income if less) into an IRA. The \$2,000 amount may be allocated between Roth IRA and traditional IRA contributions	For Taxable Years	Maximum Contribution Amount
	2002	\$3,000
	2003	\$3,000
	2004	\$3,000
	2005	\$4,000
	2006	\$4,000
	2007	\$4,000
	2008	\$5,000

- **New catch-up contributions.** For traditional and Roth IRAs, individuals age 50 or older will be able to make catch-up contributions in addition to traditional contributions as follows.

Current Law	New Law	
No provision.	Year	Annual Catch-Up Limit
	2002	\$500
	2003	\$500
	2004	\$500
	2005	\$500
	2006	\$1,000

- **Increase in contribution limit to SIMPLE IRA plans.** The annual limit for elective deferral contributions to SIMPLE IRA plans will increase as indicated below.

Current Law	New Law	
Limit: For 2001, the maximum elective deferral contribution limit was \$6,500; future increases indexed in \$500 increments	Year	Maximum Elective Deferral Contribution
	2002	\$7,000
	2003	\$8,000
	2004	\$9,000
	2005	\$10,000

For SIMPLE IRA plans, participants age 50 or older will be able to make catch-up contributions as indicated below.

Current Law	New Law	
No provision.	Year	Annual Catch-Up Limit
	2002	\$500
	2003	\$1,000
	2004	\$1,500
	2005	\$2,000
	2006	\$2,500

- **Portability.** Beginning in 2002, eligible rollover distributions from a 401(a) (including 401(k) plans), 403(b) plans, governmental 457(b) plans, and traditional IRAs (including SEPs, SARSEPs and certain SIMPLE IRAs) can be rolled into each other. Certain rollovers will have to be accounted for separately (segregated) and additional requirements may apply to some rollovers.

Now may be the time to review your retirement plan to determine how the new legislative changes may affect it. You can also contact your financial professional for more information. You should consult with your tax advisor before making any tax-related decisions.

The information set forth herein is based on our understanding of the laws and is not intended to provide plan participants with tax or legal advice. Please consult with your attorney or tax advisor for advice concerning your particular circumstances.



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