

Economic Growth and Tax Relief Reconciliation Act of 2001

EGTRRA of 2001

Great News for Retirement Savers!

Increased Annual Limits for 401(k)/403(b)/457 Elective Deferrals

Year	Limit
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006	\$15,000
Following years	\$500 increase each year

Increased Annual Limits for SIMPLE 401(k) Elective Deferrals

Year	Limit
2002	\$7,000
2003	\$8,000
2004	\$9,000
2005	\$10,000
Following years	\$500 increase each year

Annual Compensation Limit Increased

- ▲ Increased \$170,000 to \$200,000 in year 2002, then indexed \$5,000 each year thereafter.
- ▲ Result – less restrictive to highly compensated. Easier to pass compliance tests and more generous Profit Sharing allocation.

Less Restrictive IRC 415 Limits

- ▲ **Old Method (2001) – Lesser of 25% of pay or \$35,000.**
- ▲ **New Method (2002) – Lesser of 100% of pay or \$40,000 (indexed in \$5,000 increments).**



Catch Up Contributions for Older Workers

- ▲ Individuals age 50 and older can make 'catch up' contributions.
- ▲ \$1,000 max to a 401(k) Plan in 2002. Increased \$1,000 each year after to \$5,000 in 2006.
- ▲ \$500 max to a SIMPLE Plan in 2002. Increased \$500 each year after to \$2,500 in 2006.
- ▲ \$500 annual max in 2002-2005, and \$1,000 in 2006.
- ▲ Not subject to contribution limits. Applies only to participants limited by IRS Code (testing).

Changes to Top Heavy Testing

- ▲ **Modifies definition of 'Key Employee'. An owner/officer earning more than \$130,000 annually.**
- ▲ **Eliminates the 4-year look back rule for identifying Key employees.**
- ▲ **Matching contributions count towards satisfying TH minimum contribution.**
- ▲ **Shortens look for distributions from 5 years to 1 year (except in-service wd's).**
- ▲ **Exempts Safe Harbor 401(k)'s from TH rules, in addition to Nondiscrimination Testing.**

Expanded Portability

- ▲ Rollovers permitted between 401(k), 403(b), and 457 plans.
- ▲ Allows IRA amounts to be rolled over to a qualified plan, a 403(b) plan or a 457 plan.
- ▲ Permits a surviving spouse to roll over distributions to a qualified plan, 403(b) plan or 457 plan.



Faster Vesting Required

- ▲ **Matching contributions must vest at least as fast as one of these two schedules:**
 - **100% vested upon completion of 3 years of service.**
 - **20% vested upon completing two years of service, plus 20% each subsequent year (100% after completing six years of service.)**



Small Amount Payouts

- ▲ **Allows rollover contributions to be disregarded when determining if a member's vested benefit exceeds \$5,000.**
- ▲ **Directs the DOL to issue regulations that require small amount benefits between \$1,000 and \$5,000 be automatically rolled over to an IRA if the member does not elect otherwise.**

Employer Deduction Limits

- ▲ Excludes deferrals from the employer's deduction limit.
- ▲ Increase the deduction limit for profit sharing (including 401k) and stock bonus plans to 25% aggregate employees' pay.
- ▲ Changes the definition of compensation to include elective deferrals.



Tax Credit for new Businesses with less than 100 Employees

- ▲ **Small Business Tax Credit for start up expenses is a 3-year tax credit for growing businesses that adopt a qualified defined benefit or defined contribution plan. The credit covers 50% of the first \$1,000 in administrative and education expenses for the first 3 plan years, and is available to employers with 100 or fewer employees.**



Tax Credit for Low and Middle Income Savers

- ▲ **The Tax Credit for Low- and Middle-Income Savers is a temporary tax credit (for up to 5 years) for contributions made by eligible taxpayers to a qualified plan or IRA. The maximum annual contribution eligible for the credit is \$2,000 (maximum amount based on adjusted gross income). This tax credit is available to joint filers with incomes of \$50,000 or less and single filers with income of \$25,000 or less.**



Roth Contributions in 401(k) and 403(b) Plans

- ▲ Allows members to designate all or part of their elective deferrals to a 401(k) and 403(b) plan as a Roth contribution.
- ▲ Earnings are tax-free if left in the plan at least 5 years and distributed after age 59 $\frac{1}{2}$.
- ▲ These “after-tax” contributions will be tested along with pre-tax deferrals as part of the nondiscrimination test and would be combined with pre-tax elective deferrals for purposes of the maximum deferral amount.

Miscellaneous

- Repeals the 401(k) multiple use test.
- Reduces the deferral suspension period following a hardship withdrawal from 12 months to 6 months. A hardship withdrawal is not eligible for rollover.
- Allows plans to make loans to owner-employees of S corporations, partnerships and sole proprietorships.
- Waives the IRS user fee for a determination letter for any retirement plan maintained by an employer with 100 or less employees during the first five years of a plan's existence.
- Clarifies that employer provided individual retirement and financial planning services are treated as non-taxable fringe benefits if the services are available to all eligible employees on the same terms.



Potential Action Plan:

- ◆ Add 401(k) to your strategic business plan
- ◆ Ask the Question(s)
- ◆ Use our resources

Thank you!