

PENSION PROVISION HIGHLIGHTS OF “EGTRRA”

THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001 (SIGNED INTO LAW JUNE 7, 2001)

- \$2,000 IRA contribution limit raised to \$3,000 in 2002: \$4,000 in 2005 through 2007: \$5,000 in 2008, then indexed in \$500 increments
- an IRA “catch up” contribution is allowed for people age 50 and older of an additional \$500 in 2002 through 2005, and an additional \$1,000 thereafter
- \$10,500 401(k) elective deferral limit raised to \$11,000 in 2002, then increased \$1,000 each year until \$15,000 in 2006, then indexed in \$500 increments
- \$6,500 SIMPLE plan limit increased \$1,000 each year beginning in 2002 until \$10,000 in 2005, then indexed in \$500 increments
- \$140,000 maximum defined benefit dollar limit increased to \$160,000 in 2002, then indexed in \$5,000 amounts
- no actuarial reductions to the maximum defined benefit limit will be required for normal retirement ages between 62 and 65
- \$35,000 maximum defined contribution dollar limit raised to \$40,000 in 2002, then indexed in \$1,000 increments
- \$170,000 maximum salary limit raised to \$200,000 in 2002, then indexed in \$5,000 increments
- plan loans for sole proprietors, partners, and Sub-S shareholders allowed beginning in 2002
- 401(k) elective deferrals no longer count toward the employer’s deduction limit
- new small employer plans will not have to pay a user fee for a letter of determination
- the profit sharing deduction limit was increased to 25% in 2002
- a tax credit is allowed for the start-up costs for a new small business retirement plan
- a 401(k) "catch-up" provision is allowed for people age 50 and older of \$1,000 in 2002, then increased each year by \$1,000 until \$5,000 in 2006, then indexed in \$500 increments
- the 25% of compensation limit in defined contribution plans was increased to 100% in 2002
- many additional pension provisions were included in the Act to encourage the establishment of small business retirement plans