

### Major Retirement Plan Provisions of 2001 Tax Act

Topic	Provision	Effective Date
<b>ALL QUALIFIED PLANS (DEFINED CONTRIBUTION &amp; DEFINED BENEFIT)</b>		
<b><i>Increased compensation limits</i></b>	<ul style="list-style-type: none"> <li>• The compensation limit under section 401(a)(17) is increased to \$200,000.</li> <li>• Limit is indexed in \$5,000 increments.</li> <li>• Increase also applies for SIMPLE plans and VEBAs.</li> </ul> (Section 611)	Years beginning after 12/31/01.
<b><i>Expanded rollovers</i></b>	<ul style="list-style-type: none"> <li>• Employees may roll over benefits among 401(a), 403(b), and governmental 457(b) plans and IRAs, if the recipient plan or IRA accepts the amounts and satisfies specified separate accounting rules (e.g., 457(b) plans accepting rollovers from non-457(b) plans must separately account for such amounts).</li> <li>• After-tax amounts may be rolled over to IRAs and defined contribution plans, except that after-tax amounts may not be rolled over from IRAs to non-IRAs; the recipient plan must separately account for the after-tax amounts.</li> <li>• Surviving spouses may roll over distributions to a qualified plan, 403(b) plan, or governmental 457(b) plan in which spouse participates.</li> </ul> (Sections 641-643)	Distributions after 12/31/01.

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<b><i>402(f) written rollover notice</i></b>	<ul style="list-style-type: none"> <li>Written explanation of rollover rights (section 402(f)) must describe how the restrictions on and tax consequences for distributions from the plan receiving the rollover may differ from those on/for distributions from the plan making the rollover.</li> </ul> <p>(Section 641)</p>	Distributions after 12/31/01. No penalty for failure to provide the additional information with respect to any distribution made before the date that is 90 days after the date IRS issues a safe harbor rollover notice, if the plan administrator makes a reasonable attempt to comply with the new notice requirements.
<b><i>Rollovers excluded from cashout calculations</i></b>	<ul style="list-style-type: none"> <li>Plans may ignore amounts attributable to rollover contributions when determining whether a benefit exceeds the \$5,000 cashout threshold.</li> </ul> <p>(Section 648)</p>	Distributions after 12/31/01.
<b><i>Default rollover of mandatory cashouts to IRAs</i></b>	<ul style="list-style-type: none"> <li>A mandatory cashout of more than \$1,000 must be transferred directly to an IRA (unless the participant directs otherwise).</li> <li>Plan must notify the participant in writing (separately or part of 402(f) notice) that the participant may transfer the distribution to another IRA.</li> <li>Fiduciary relief is available for default rollovers and the DOL is directed to issue safe harbor regulations within three years.</li> </ul> <p>(Section 657)</p>	Distributions made after final DOL regulations are issued.

<b>Topic</b>	<b>Provision</b>	<b>Effective Date</b>
<i>60 day rollover deadline</i>	<ul style="list-style-type: none"><li>• IRS may waive the 60-day deadline under hardship circumstances.</li><li>• IRS may issue guidance on waivers in cases such as combat duty, natural disasters, uncashed checks, bank errors, death or incapacity.</li></ul> (Section 644)	Distributions after 12/31/01.

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<p><i>Amendments reducing rate of future benefit accrual — notice requirements</i></p>	<p>The 204(h) notice requirement for DB plans and money purchase plans is expanded in the following ways:</p> <ul style="list-style-type: none"> <li>• Notice required for amendments that significantly reduce an early retirement benefit or retirement-type subsidy.</li> <li>• Notice must provide “sufficient information” (as determined by Treasury regulations) to allow participants to understand the effect of the plan amendment. [It’s not clear how detailed the disclosure must be — for example, whether plans will be required to provide individualized statements or if illustrative examples will satisfy this requirement.]</li> <li>• Regulations may permit notice to be provided by new technologies.</li> </ul> <p>The notice:</p> <ul style="list-style-type: none"> <li>• Must be provided “within a reasonable time before” the amendment’s effective date.</li> <li>• Can be provided at any time during the 3-month period beginning on 6/7/01, in the case of plan amendments effective soon after 6/7/01 (prior law’s 15-day advance notice requirement does not apply in these cases).</li> <li>• May be provided before adoption of the amendment (absent material modification of the terms of the amendment).</li> </ul> <p>If employer fails to provide notice:</p> <ul style="list-style-type: none"> <li>• Subject to excise tax of \$100 per day per individual, unless waived by the IRS (capped at \$500,000 per year if employer exercised reasonable diligence).</li> <li>• Employees entitled to better of old or new formula, at least in the case of an egregious failure.</li> </ul> <p>(Section 659)</p>	<p>Applies to amendments taking effect on or after 6/7/01.</p> <p>Congress intends regulations to be issued within 90 days after 6/7/01.</p> <p>Until Treasury issues regulations, good faith compliance standard applies.</p> <p>Amendments taking effect on or after 6/7/01 are exempt if, before 4/25/01, adversely affected participants were given reasonable notice of the nature and effective date of the amendment.</p>

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<i>Deemed IRAs under employer plans</i>	<ul style="list-style-type: none"> <li>Plans may permit employees to make employee contributions to separate accounts or annuities and to elect to treat the contributions as IRAs or Roth IRAs.</li> <li>Contributions count against the regular IRA and Roth IRA limits.</li> </ul> (Section 602)	Plan years beginning after 12/31/02.
<i>De minimis exception to anti-cutback protection</i>	<ul style="list-style-type: none"> <li>IRS is directed to issue regulations permitting amendments that reduce or eliminate “benefits or subsidies” that create significant burdens and complexities for the plan and participants, provided the amendments do not have more than a de minimis adverse effect on participants’ rights.</li> </ul> (Section 645(b))	IRS to issue final regulations by 12/31/03, and regulations apply to plan years beginning after 12/31/03 or such earlier date as IRS may specify.
<i>Fringe benefits: retirement planning service</i>	<ul style="list-style-type: none"> <li>Employer-provided retirement planning services are nontaxable fringe benefits under section 132.</li> <li>The exclusion is denied to highly compensated employees if the services do not satisfy nondiscriminatory availability rules.</li> </ul> (Section 665)	Calendar years beginning after 12/31/01.
<i>Modified top-heavy rules</i>	<ul style="list-style-type: none"> <li>See <b>Top-Heavy</b> section below.</li> </ul>	
<b>DEFINED CONTRIBUTION PLANS (INCLUDING 401(k) PLANS AND ESOPs)</b>		
<i>Increased 415 dollar limits</i>	<ul style="list-style-type: none"> <li>The dollar limit on annual additions is increased to \$40,000. (Section 611)</li> <li>Dollar limit is indexed in \$1,000 increments. (Section 611)</li> <li>The percentage-of-pay limit is increased from 25% to 100% of compensation. (Section 632)</li> <li>Conferees direct IRS to prevent targeted use of QNECs for low paid employees to assist a plan in passing the ADP test.</li> </ul>	Limitation years beginning after 12/31/01.

Topic	Provision	Effective Date
<i>Increased elective deferral limits</i>	<ul style="list-style-type: none"> <li>• The annual limit on elective deferrals to 401(k) plans is increased to:               <ul style="list-style-type: none"> <li>\$11,000 in 2002</li> <li>\$12,000 in 2003</li> <li>\$13,000 in 2004</li> <li>\$14,000 in 2005</li> <li>\$15,000 in 2006 and thereafter</li> </ul> </li> <li>• Dollar limit is indexed in \$500 increments beginning in 2007.</li> </ul> (Section 611)	Calendar years beginning after 12/31/01.

Topic	Provision	Effective Date
<i>Additional catch-up contributions</i>	<ul style="list-style-type: none"> <li>• 401(k) plans may permit participants who have reached age 50 by the end of the plan year to make annual catch-up contributions. Catch-ups are permitted once the participant has hit the dollar limit, ADP limit or other plan-imposed limit on elective deferrals for that year. The level of plan participation in past years is irrelevant.</li> <li>• Additional catch-up contributions are limited to: <ul style="list-style-type: none"> <li>\$1,000 for calendar years beginning in 2002;</li> <li>\$2,000 for 2003</li> <li>\$3,000 for 2004</li> <li>\$4,000 for 2005</li> <li>\$5,000 for 2006 and thereafter</li> </ul> </li> <li>• Total deferrals (including catch-up contributions) cannot exceed 100% of pay.</li> <li>• Dollar limit is indexed in \$500 increments beginning in 2007.</li> <li>• Catch-up contributions are exempt from (i) all contribution and deduction limits and (ii) all nondiscrimination requirements, if all eligible participants under all plans in the controlled group have the same opportunity to make catch-up contributions.</li> <li>• An employer may match catch-up contributions; however, the match is subject to the usual limits and nondiscrimination testing.</li> </ul> <p>(Section 631)</p>	Contributions in calendar years beginning after 12/31/01.

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<i>“Qualified Roth contribution program” in qualified plans</i>	<ul style="list-style-type: none"> <li>• A plan may include a “qualified Roth contribution program” that permits employees to direct that elective deferrals will not be excludable from income (but will be treated as elective deferrals for all other purposes).</li> <li>• The plan is required to maintain separate accounting for “Roth contributions” and report such contributions separately.</li> <li>• Rollovers are permitted between designated Roth accounts and Roth IRAs.</li> <li>• Tax-free distributions are allowed from Roth accounts after age 59½, death, or disability, provided the Roth account established for at least five years.</li> </ul> (Section 617)	Calendar years beginning after 12/31/05.
<i>Individual tax credit for elective deferrals</i>	<ul style="list-style-type: none"> <li>• Nonrefundable tax credit is allowed for elective deferrals and voluntary employee contributions to 401(k), 403(a), 403(b), and governmental 457(b) plans and IRAs.</li> <li>• Credit equals a specified percentage of first \$2,000 in deferrals/contributions, as follows:               <ul style="list-style-type: none"> <li>50% for joint incomes up to \$30,000</li> <li>20% for joint incomes between \$30,000 and \$32,500</li> <li>10% for joint incomes between \$32,500 and \$50,000</li> <li>0% for joint incomes over \$50,000</li> </ul> </li> <li>• Credit does not change the otherwise applicable tax treatment of the elective deferrals and contributions.</li> </ul> (Section 618)	Calendar years beginning after 12/31/01. Does not apply to calendar years beginning after 12/31/06.



Topic	Provision	Effective Date
<b><i>Increased employer deduction limits</i></b>	<ul style="list-style-type: none"> <li>• The deduction limit for profit-sharing and stock bonus plans is increased from 15% to 25% of compensation. (Section 616)</li> <li>• Money purchase pension plans are treated as profit-sharing plans for purposes of limits on deductible contributions. (Section 616)</li> <li>• Elective deferrals and other salary reduction contributions are included in “compensation” when calculating deduction limits. (Section 616)</li> <li>• Elective deferrals are exempted from deduction limits and are disregarded in applying deduction limits to other contributions. (Section 614)</li> <li>• Disabled participants’ imputed pay is included as “compensation” for deduction purposes. (Section 616)</li> </ul>	Years beginning after 12/31/01.
<b><i>Waiver of nondeductible contribution tax for domestic or similar workers</i></b>	<ul style="list-style-type: none"> <li>• Individuals may maintain SIMPLE accounts/plans for household workers without incurring excise tax for nondeductible contributions. (Section 637)</li> </ul>	Calendar years beginning after 12/31/01. No inference for periods before the amendment.
<b><i>Employer deductions for reinvested dividends</i></b>	<ul style="list-style-type: none"> <li>• Employers may deduct ESOP dividends, whether or not distributed, if employees can elect to take the dividends in cash or leave them in the plan for reinvestment.</li> <li>• The IRS is authorized to disallow the deduction for dividends that constitute tax avoidance or evasion (e.g., unreasonable dividends). (Section 662)</li> </ul>	Taxable years beginning after 12/31/01.
<b><i>Repeal the 401(k)/(m) multiple use test</i></b>	<ul style="list-style-type: none"> <li>• The multiple use test for 401(k)/(m) plan ADP and ACP testing is repealed. (Section 666)</li> </ul>	Plan years beginning after 12/31/01.
<b><i>401(k) coverage test — exclusion of 403(b)-eligible employees</i></b>	<ul style="list-style-type: none"> <li>• The IRS is directed to restore a special rule permitting employers to exclude 403(b)-eligible employees from the 401(k) coverage test, if certain conditions are met. (Section 664)</li> </ul>	Plan years beginning after 12/31/96 (effective with the Small Business Job Protection Act).

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<i>Faster vesting of employer matching contributions</i>	<ul style="list-style-type: none"> <li>• Employer matching contributions must vest no slower than under either three-year cliff vesting or two-to-six year graded vesting (20% after two years of service, increasing in 20 point increments to 100% after six years of service).</li> <li>• In applying the new vesting schedule, service before the effective date is taken into account.</li> </ul> <p>(Section 633)</p>	Applies ONLY to contributions for plan years beginning after 12/31/01. For plans under bargaining agreements terminating on or after 1/1/02, applies to contributions for the plan years beginning on or after the earlier of the termination date or 1/1/06. Applies only to employees with at least one hour of service in a plan year under these new rules.
<i>401(k) plan investment diversification</i>	<ul style="list-style-type: none"> <li>• For non-ESOP 401(k) plans that require pre-tax elective deferrals to be invested in employer stock or property, the 10% limit on such investments does not apply to assets acquired before 1/1/99.</li> </ul> <p>(Section 655)</p>	Plan years beginning after 12/31/98 (TRA '97 effective date).
<i>Owner-employee loans</i>	<ul style="list-style-type: none"> <li>• Sole proprietors of unincorporated businesses, S corporation shareholders, and partners may receive qualified plan loans.</li> </ul> <p>(Section 612)</p>	Years beginning after 12/31/01.
<i>401(k) hardship distributions — safe harbor relief</i>	<ul style="list-style-type: none"> <li>• IRS is directed to issue regulations reducing from 12 to 6 months the period after a 401(k) “safe harbor” hardship distribution during which a participant is suspended from making additional contributions.</li> </ul> <p>(Section 636)</p>	Regulations will apply to years beginning after 12/31/01.

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<i>Qualified rollover distributions and hardship distributions</i>	<ul style="list-style-type: none"> <li>All hardship distributions are ineligible for rollover – including amounts attributable to salary reduction contributions, matching contributions and nonelective contributions.</li> <li>This rule applies whether or not the plan uses the 401(k) hardship standards in making hardship distributions of non-401(k) accounts.</li> </ul> (Section 636)	Distributions made after 12/31/01.
<i>Minimum distributions</i>	<ul style="list-style-type: none"> <li>The IRS is directed to update the regulations on minimum distributions to reflect current life expectancies.</li> </ul> (Section 634)	Not applicable.
<i>Repeal “same desk” rule for 401(k) plans</i>	<ul style="list-style-type: none"> <li>“Same desk” rule eliminated: 401(k) plans may distribute benefits on “severance from employment” (instead of “separation from service”).</li> <li>Special rules permitting distributions upon sale of subsidiary or substantially all assets of a trade or business are repealed, because superfluous.</li> </ul> (Section 646)	Distributions after 12/31/01, no matter when severance occurred.
<i>Elimination of optional forms</i>	<ul style="list-style-type: none"> <li>Defined contribution plans may allow employees to waive distribution forms on voluntary trustee-to-trustee transfers (including plan mergers) to other defined contribution plans, provided the transferee plan permits lump sums.</li> <li>Defined contribution plans may eliminate optional forms of benefit if the plans offer participants lump sums based on the same or greater portion of the participants’ accounts and at the same time as the forms being eliminated.</li> <li>It’s not clear how the new law meshes with last year’s IRS regulations.</li> </ul> (Section 645)	Years beginning after 12/31/01.

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<i>Allocations of S corporation stock</i>	<ul style="list-style-type: none"> <li>In the case of an ESOP holding S corporation stock, allocations to major shareholders are prohibited when their ownership interests reach certain thresholds. (Section 656)</li> </ul>	Plan years beginning after 12/31/04. In the case of certain ESOPs, applies to plan years ending after 3/14/01.
<b>DEFINED BENEFIT PLANS</b>		
<i>Increased 415 dollar limits</i>	<p>Changes the 415 limits as follows:</p> <ul style="list-style-type: none"> <li>Limit is \$160,000 for annual benefits commencing at age 65, rather than Social Security Retirement Age (SSRA).</li> <li>Limit is actuarially reduced for distributions before age 62, instead of SSRA (with reductions from age 62).</li> <li>Limit is actuarially increased for distributions after age 65, instead of SSRA.</li> <li>Dollar limit is indexed in \$5,000 increments.</li> <li>The \$75,000 minimum for tax-exempt and governmental employers is repealed.</li> <li>The special limitation under section 415(b)(7) for employees in certain collectively bargained plans is increased to \$80,000 (50% of \$160,000).</li> <li>Special rules apply to certain commercial airline pilots.</li> <li>Congress intends IRS to adopt rules similar to Notice 99-44, regarding benefit increases resulting from the repeal of the combined plan limit; this means that the higher limits could apply to participants who commenced benefits prior to the effective date, if they have accrued benefits under the plan. (Section 611)</li> </ul>	Limitation years ending after 12/31/01.
<i>Phase out current liability full funding limit</i>	<ul style="list-style-type: none"> <li>The current liability full funding limit is increased to 165% for 2002 and 170% for 2003; and the limit is repealed for 2004 and thereafter. (Section 651)</li> </ul>	Plan years beginning after 12/31/01.

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<i>Excise tax relief</i>	<ul style="list-style-type: none"> <li>• Employers may elect to disregard contributions to defined benefit plans up to the section 412(c)(7) accrued liability full funding limit in calculating nondeductible contributions subject to the 10% excise tax.</li> <li>• If employer makes election, then (i) apply the combined plan deduction limit (section 404(a)(7)) first to defined contribution contributions and then to defined benefit contributions and (ii) do not apply the special deduction rule (section 4972(c)(6)) for defined contribution contributions (up to 6% of compensation) and elective and matching contributions.</li> </ul> (Section 653)	Taxable years beginning after 12/31/01.
<i>Plan valuations</i>	<ul style="list-style-type: none"> <li>• Annual valuation is required as of a date within the plan year or within one month prior to the beginning of the plan year (this is a codification of an existing proposed regulation).</li> <li>• Defined benefit plans funded at 125% or more of current liability may make an election to do valuations as of any date within the prior year (with adjustments to reflect significant differences in participants).</li> </ul> (Section 661)	Plan years beginning after 12/31/01.
<i>Increased employer deduction limits</i>	<ul style="list-style-type: none"> <li>• The rule allowing employers to deduct contributions up to unfunded current liability is expanded by eliminating the requirement that the plan have more than 100 participants.</li> <li>• For plans with 100 or fewer participants, current liability is determined by disregarding increases in HCE benefits attributable to amendments taking effect in the last two years.</li> <li>• For terminating plans, employers can deduct the amount required to make the plan sufficient for benefit liabilities — but there is a carve-out for small professional service employers.</li> </ul> (Section 652)	Plan years beginning after 12/31/01.

Topic	Provision	Effective Date
<b>MULTIEMPLOYER PLANS</b>		
<i>Increased deduction limits for multiemployer plans</i>	<ul style="list-style-type: none"> <li>• The rule allowing employers to deduct contributions up to unfunded current liability is extended to multiemployer plans. <b>(Section 652)</b></li> </ul>	Plan years beginning after 12/31/01.
<i>Increased 415 percentage-of-comp limits</i>	<ul style="list-style-type: none"> <li>• The 100% of compensation limit under section 415(b) is repealed for multiemployer plans.</li> <li>• A multiemployer plan is not aggregated with a single-employer plan for the purpose of applying the 100% of compensation limit to the single-employer plan.</li> <li>• A multiemployer plan is not aggregated with other multiemployer plans in applying section 415 limits (this is a codification of existing regulations). <b>(Section 654)</b></li> </ul>	Limitation year beginning after 12/31/01.
<i>Accounting method and deductions for employers contributing to multiemployer plans</i>	<ul style="list-style-type: none"> <li>• A determination of the taxable year to which an employer's contributions to a multiemployer plan relates is not a "method of accounting" of the employer.</li> <li>• Employers cannot claim double deductions of contributions to multiemployer plans.</li> <li>• IRS is directed to issue regulations clarifying that an employer may not claim deductions for amounts in excess of contributions made or deemed made. <b>(Section 658)</b></li> </ul>	Taxable years ending after 6/7/01; no inference is intended for prior years on the "method of accounting" issue.
<b>TOP-HEAVY PLANS</b>		
<i>Modify key employee definition</i>	<ul style="list-style-type: none"> <li>• The four-year look-back rule for determining key employees is eliminated.</li> <li>• Officer must earn more than \$130,000 (indexed in \$5,000 increments) to be considered a key employee.</li> <li>• The top-10 owner category of key employees is eliminated. <b>(Section 613)</b></li> </ul>	Plan years beginning after 12/31/01.

Topic	Provision	Effective Date
<i>Modify top-heavy determination</i>	<ul style="list-style-type: none"> <li>The distribution add-back period is shortened from five years to one year for all distributions, except that the five year rule is retained for in-service distributions.</li> <li>An employee's accrued benefit or account balance is disregarded if the employee has not performed services for the employer for the one-year period ending on the determination date.</li> </ul> (Section 613)	Plan years beginning after 12/31/01.
<i>Matching contributions and the minimum benefit requirement</i>	<ul style="list-style-type: none"> <li>Matching contributions may be counted toward the top-heavy minimum, while still being counted under the ACP test.</li> </ul> (Section 613)	Plan years beginning after 12/31/01.
<i>Safe harbor 401(k) plans</i>	<ul style="list-style-type: none"> <li>401(k) plans exempted from top-heavy status if they satisfy the 401(k)(12) safe harbor and provide matching contributions that satisfy the 401(m)(11) safe harbor.</li> <li>Matching and non-elective contributions under safe harbor 401(k) plans can be taken into account in determining whether other top-heavy plans meet the minimum benefit requirement.</li> </ul> (Section 613)	Plan years beginning after 12/31/01.
<i>Frozen defined benefit plans and the minimum benefit requirement</i>	<ul style="list-style-type: none"> <li>In determining whether a frozen defined benefit plan satisfies the minimum benefit requirement, a year of service will not include any year in which no key employee benefits.</li> </ul> (Section 613)	Plan years beginning after 12/31/01.
<b>403(b) PLANS</b>		

Topic	Provision	Effective Date
<i>Increased 403(b) dollar limits</i>	<ul style="list-style-type: none"> <li>• The annual limit on elective deferrals to 403(b) plans is increased to:               <ul style="list-style-type: none"> <li>\$11,000 in 2002</li> <li>\$12,000 in 2003</li> <li>\$13,000 in 2004</li> <li>\$14,000 in 2005</li> <li>\$15,000 in 2006 and thereafter</li> </ul> </li> <li>• Limit is indexed in \$500 increments beginning in 2007.</li> </ul> (Section 611(d))	Calendar years beginning after 12/31/01.
<i>Repeal exclusion allowance and apply 415 limits</i>	<ul style="list-style-type: none"> <li>• The 403(b) exclusion allowance is repealed and 403(b) plans are subject to the 415 limits.</li> <li>• Section 415 is modified to incorporate the 403(b) definition of “includible compensation.”</li> <li>• “Includible compensation” excludes any amount received by a former employee after the fifth year following the year in which the employee terminated employment.</li> <li>• Special elections for 403(b) contracts under section 415(c)(4) are eliminated.</li> </ul> (Section 632)	Years beginning after 12/31/01.
<i>Transition from exclusion allowance to 415 limits</i>	<ul style="list-style-type: none"> <li>• In applying section 415 limits, a 403(b) contract benefiting a participant is treated as a defined contribution plan maintained by each employer with respect to which the participant has control.</li> <li>• If contributions to aggregated plans exceed 415 limits in 2000, the excess amount will reduce the exclusion allowance.</li> <li>• For taxable years beginning after 12/31/99 and before 1/1/02, a plan may disregard the requirement that contributions to a defined benefit plan be treated as previously excluded amounts for purposes of the exclusion allowance.</li> </ul> (Section 632)	Years beginning after 12/31/99.



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<i>Additional catch-up contributions</i>	<ul style="list-style-type: none"> <li>• 403(b) plans may permit participants who have reached age 50 by the end of the plan year to make annual catch-up contributions. Catch-ups are permitted once the participant has hit the dollar limit or other plan-imposed limit on elective deferrals for that year. The level of plan participation in past years is irrelevant.</li> <li>• Additional catch-up contributions to 403(b) plans are limited to: <ul style="list-style-type: none"> <li>\$1,000 for calendar years beginning in 2002</li> <li>\$2,000 for 2003</li> <li>\$3,000 for 2004</li> <li>\$4,000 for 2005</li> <li>\$5,000 for 2006 and thereafter</li> </ul> </li> <li>• Total deferrals (including catch-up contributions) cannot exceed 100% of pay.</li> <li>• Limit indexed in \$500 increments beginning in 2007.</li> <li>• Catch-up contributions are exempt from (i) all contribution and deduction limits and (ii) all nondiscrimination requirements, if all eligible participants under all plans in the controlled group have the same opportunity to make catch-up contributions.</li> <li>• An employer may match catch-up contributions; however, the match is subject to the usual limits and nondiscrimination testing.</li> </ul> <p>(Section 631)</p>	Contributions in calendar years beginning after 12/31/01.
<i>Deemed IRAs under 403(b) plans</i>	<ul style="list-style-type: none"> <li>• 403(b) plans may permit employees to make employee contributions to separate accounts or annuities and to elect to treat the contributions as IRAs or Roth IRAs.</li> <li>• Contributions count against the regular IRA and Roth IRA limits.</li> </ul> <p>(Section 602)</p>	Plan years beginning after 12/31/02.

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<b><i>Qualified Roth contribution program</i></b>	<ul style="list-style-type: none"> <li>• A 403(b) plan may include a “qualified Roth contribution program” that permits employees to direct that elective deferrals will not be excludable from income (but will be treated as elective deferrals for all other purposes).</li> <li>• Plan is required to maintain separate accounting for “Roth contributions” and report such contributions separately.</li> <li>• Rollovers are permitted between designated Roth accounts and Roth IRAs.</li> <li>• Tax-free distributions are allowed from Roth accounts after age 59½, death, or disability, provided the Roth account established for at least five years.</li> </ul> (Section 617)	Calendar years beginning after 12/31/05.
<b><i>Individual tax credit for elective deferrals to 403(b) plans</i></b>	<ul style="list-style-type: none"> <li>• Nonrefundable tax credit is allowed for elective deferrals and voluntary employee contributions to 401(k), 403(a), 403(b), and governmental 457(b) plans and IRAs.</li> <li>• Credit of a specified percentage of the first \$2,000 in deferrals/contributions, as follows:               <ul style="list-style-type: none"> <li>50% for joint incomes up to \$30,000</li> <li>20% for joint incomes between \$30,000 and \$32,500</li> <li>10% for joint incomes between \$32,500 and \$50,000</li> <li>0% for joint incomes over \$50,000</li> </ul> </li> <li>• Credit does not change the otherwise applicable tax treatment of the elective deferrals and contributions.</li> </ul> (Section 618)	Calendar years beginning after 12/31/01. Does not apply to calendar years beginning after 12/31/06.
<b><i>Minimum distributions</i></b>	<ul style="list-style-type: none"> <li>• The IRS will update the regulations on minimum distributions to reflect current life expectancies.</li> </ul> (Section 634)	Not applicable.
<b><i>Repeal “same desk” rule</i></b>	<ul style="list-style-type: none"> <li>• “Same desk” rule eliminated: 403(b) plans may distribute benefits on “severance from employment” (instead of “separation from service”).</li> </ul> (Section 646)	Distributions after 12/31/01, no matter when severance occurred.

Topic	Provision	Effective Date
<i>Expanded rollovers</i>	<ul style="list-style-type: none"> <li>• Employees may roll over benefits among 401(a), 403(b), and governmental 457(b) plans and IRAs, if the recipient plan or IRA accepts the amounts and satisfies specified separate accounting rules (e.g., 457(b) plans accepting rollovers from non-457(b) plans must separately account for such amounts).</li> <li>• After-tax amounts may be rolled over to IRAs and defined contribution plans, except that after-tax amounts may not be rolled over from IRAs to non-IRAs; the recipient plan must separately account for the after-tax amounts.</li> <li>• Surviving spouses may roll over distributions to a qualified plan, 403(b) plan, or governmental 457(b) plan in which spouse participates.</li> </ul> (Sections 641-643)	Distributions after 12/31/01.
<i>402(f) written rollover notice</i>	<ul style="list-style-type: none"> <li>• The payor of a 403(b) distribution must provide a written explanation of rollover rights (section 402(f)), describing how the restrictions on and tax consequences for distributions from the plan receiving the rollover may differ from those on/for distributions from the plan making the rollover.</li> </ul> (Section 641)	Distributions after 12/31/01. No penalty for failure to provide the additional information with respect to any distribution that is made before the date that is 90 days after the date IRS issues a safe harbor rollover notice, if the payor makes a reasonable attempt to comply with the new notice requirements.

<b>Topic</b>	<b>Provision</b>	<b>Effective Date</b>
<i>60 day rollover deadline</i>	<ul style="list-style-type: none"> <li>The IRS may waive the 60-day deadline for rollovers under hardship circumstances.</li> <li>IRS may issue guidance on waivers in cases such as combat duty, natural disasters, uncashed checks, bank errors, death or incapacity.</li> </ul> (Section 644)	Distributions after 12/31/01.
<i>Qualified rollover distributions and hardship distributions</i>	<ul style="list-style-type: none"> <li>All hardship distributions are ineligible for rollover – including amounts attributable to salary reduction contributions, matching contributions and nonelective contributions.</li> <li>This rule applies no matter what hardship standards the plan applies in making hardship distributions.</li> </ul> (Sections 636 and 641)	Distributions made after 12/31/01.
<i>Purchase service credits under governmental defined benefit plans</i>	<ul style="list-style-type: none"> <li>Transferees from 403(b) plans may purchase permissive service credits under governmental defined benefit plans.</li> </ul> (Section 647)	Trustee-to-trustee transfers after 12/31/01.
<i>Fringe benefits: retirement planning service</i>	<ul style="list-style-type: none"> <li>Employer-provided retirement planning services are nontaxable fringe benefits under section 132.</li> <li>Exclusion denied to highly compensated employees if the services do not satisfy nondiscriminatory availability rules.</li> </ul> (Section 665)	Calendar years beginning after 12/31/01.
<b>457(b) PLANS</b>		

Topic	Provision	Effective Date
<i>Increased 457(b) dollar limits</i>	<ul style="list-style-type: none"> <li>• The annual limit on elective deferrals to 457(b) plans is increased to:               <ul style="list-style-type: none"> <li>\$11,000 in 2002</li> <li>\$12,000 in 2003</li> <li>\$13,000 in 2004</li> <li>\$14,000 in 2005</li> <li>\$15,000 in 2006</li> </ul> </li> <li>• Limit is indexed in \$500 increments starting in 2007.</li> <li>• For the last three years before retirement, the dollar limit is increased to twice the regular dollar limit.</li> </ul> (Section 611)	Calendar years beginning after 12/31/01.
<i>No coordination of 457(b) contributions with other elective deferrals</i>	<ul style="list-style-type: none"> <li>• 401(k), 403(b), SEP, and SIMPLE deferrals do not count against the 457(b) dollar limit – e.g., employee may contribute \$11,000 to 403(b) plan plus \$11,000 to 457(b) plan in 2002.</li> </ul> (Section 615)	Calendar years beginning after 12/31/01.
<i>Increased percentage-of-compensation deferral limits</i>	<ul style="list-style-type: none"> <li>• The percentage-of-compensation deferral limit is increased from 33-1/3% to 100% of compensation.</li> </ul> (Section 632)	Calendar years beginning after 12/31/01.

Topic	Provision	Effective Date
<i>Additional catch-up contributions</i>	<ul style="list-style-type: none"> <li>• Governmental 457(b) plans may permit participants who have reached age 50 by the end of the year to make annual catch-up contributions. Catch-ups are permitted once the participant has hit the dollar limit or other plan-imposed limit on elective deferrals for that year. The level of plan participation in past years is irrelevant.</li> <li>• Additional catch-up contributions to governmental 457(b) plans are limited to: <ul style="list-style-type: none"> <li>\$1,000 for calendar years beginning in 2002</li> <li>\$2,000 for 2003</li> <li>\$3,000 for 2004</li> <li>\$4,000 for 2005</li> <li>\$5,000 for 2006 and thereafter</li> </ul> </li> <li>• Total deferrals (including catch-up contributions) cannot exceed 100% of pay.</li> <li>• Limit indexed in \$500 increments beginning in 2007.</li> <li>• Catch-up contributions are exempt from all contribution limits.</li> <li>• Does not apply to participants who are eligible to make other catch-up contributions under section 457(b)(3) during the last three years before retirement.</li> </ul> <p>(Section 631)</p>	Contributions in calendar years beginning after 12/31/01.

Topic	Provision	Effective Date
<i>Individual tax credit for elective deferrals to governmental 457(b) plans</i>	<ul style="list-style-type: none"> <li>• Nonrefundable tax credit is allowed for elective deferrals and voluntary employee contributions to 401(k), 403(a), 403(b), and governmental 457(b) plans and IRAs.</li> <li>• Credit equals a specified percentage of the first \$2,000 in deferrals/contributions as follows:               <ul style="list-style-type: none"> <li>50% for joint incomes up to \$30,000</li> <li>20% for joint incomes between \$30,000 and \$32,500</li> <li>10% for joint incomes between \$32,500 and \$50,000</li> <li>0% for joint incomes over \$50,000</li> </ul> </li> <li>• Credit does not change the otherwise applicable tax treatment of the elective deferrals and contributions.</li> </ul> (Section 618)	Calendar years beginning after 12/31/01. Does not apply to calendar years beginning after 12/31/06.
<i>Deemed IRAs under 457(b) plans</i>	<ul style="list-style-type: none"> <li>• 457(b) plans may permit employees to make employee contributions to separate accounts or annuities and to elect to treat the contributions as IRAs or Roth IRAs.</li> <li>• Contributions count against the regular IRA and Roth IRA limits.</li> </ul> (Section 602)	Plan years beginning after 12/31/02.
<i>Minimum distributions</i>	<ul style="list-style-type: none"> <li>• 457(b) plans continue to be subject to the minimum distribution rules applicable to qualified plans, but are no longer subject to additional minimum distribution requirements.</li> <li>• The IRS is directed to update the minimum distribution regulations to reflect current life expectancies.</li> </ul> (Section 649)	Distributions after 12/31/01.
<i>Repeal “same desk” rule</i>	<ul style="list-style-type: none"> <li>• “Same desk” rule eliminated: 457(b) plans may distribute benefits on “severance from employment” (instead of “separation from service”).</li> </ul> (Section 646)	Distributions after 12/31/01, no matter when severance occurred.

Topic	Provision	Effective Date
<i>Expanded rollovers</i>	<ul style="list-style-type: none"> <li>• Employees may roll over benefits among 401(a), 403(b), and governmental 457(b) plans and IRAs, if the recipient plan or IRA accepts the amounts and satisfies specified separate accounting rules (e.g., 457(b) plans accepting rollovers from non-457(b) plans must separately account for such amounts).</li> <li>• After-tax amounts may be rolled over to IRAs and defined contribution plans, except that after-tax amounts may not be rolled over from IRAs to non-IRAs; the recipient plan must separately account for the after-tax amounts.</li> <li>• Surviving spouses may roll over distributions to a qualified plan, 403(b) plan, or governmental 457(b) plan in which spouse participates.</li> <li>• 10% penalty tax applies to early distributions from 457(b) plans that are attributable to rollover amounts.</li> </ul> <p>(Sections 641-643; 649)</p>	Distributions after 12/31/01.
<i>402(f) written rollover notice</i>	<ul style="list-style-type: none"> <li>• Governmental 457(b) plans must provide a written explanation of rollover rights (section 402(f)), describing how the restrictions on and tax consequences for distributions from the plan receiving the rollover may differ from those on/for distributions from the plan making the rollover.</li> </ul> <p>(Section 641)</p>	Distributions after 12/31/01. No penalty for failure to provide the additional information with respect to any distribution that is made before the date that is 90 days after the date IRS issues a safe harbor rollover notice, if there is a reasonable attempt to comply with the new notice requirements.



Topic	Provision	Effective Date
<i>60 day rollover deadline</i>	<ul style="list-style-type: none"> <li>The IRS may waive the 60-day deadline for rollovers under hardship circumstances.</li> <li>IRS may issue guidance on waivers in cases such as combat duty, natural disasters, uncashed checks, bank errors, death or incapacity.</li> </ul> (Section 644)	Distributions after 12/31/01.
<i>Qualified rollover distributions and hardship distributions</i>	<ul style="list-style-type: none"> <li>All hardship distributions are ineligible for rollover – including amounts attributable to salary reduction contributions, matching contributions and nonelective contributions.</li> <li>This rule applies no matter what hardship standards the plan applies in making hardship distributions.</li> </ul> (Sections 636 and 641)	Distributions made after 12/31/01.
<i>Taxation of distributions</i>	<ul style="list-style-type: none"> <li>For participants in governmental 457(b) plans, benefits are taxable only when such amounts are actually distributed; constructive receipt rules no longer apply.</li> <li>For participants in 457(b) plans maintained by tax-exempt entities, benefits continue to be taxable when actually or constructively received.</li> <li>The one-time election to defer commencement applies only to plans maintained by tax-exempt entities (because this election is an exception to the constructive receipt rules).</li> <li>All 457(b) plans may continue to distribute small benefits to inactive participants, but the amount attributable to rollover contributions can be ignored when determining whether these distributions exceed the \$5,000 cashout threshold.</li> <li>The mandatory and elective withholding rules applicable to qualified plans are extended to governmental 457 plans.</li> </ul> (Sections 641 and 649)	Distributions after 12/31/01.
<i>QDROs</i>	<ul style="list-style-type: none"> <li>The tax treatment of 457(b) benefits on divorce corresponds to the QDRO treatment for qualified plan benefits.</li> </ul> (Section 635)	Transfers, distributions, and payments made after 12/31/01.

Topic	Provision	Effective Date
<i>Purchase service credits under governmental defined benefit plans</i>	<ul style="list-style-type: none"> <li>Transferees from 457(b) plans may purchase permissive service credits under governmental defined benefit plans. (Section 647)</li> </ul>	Trustee-to-trustee transfers after 12/31/01.
<b>SMALL EMPLOYER PLANS</b>		
<i>Owner-employee loans</i>	<ul style="list-style-type: none"> <li>Sole proprietors of unincorporated businesses, S corporation shareholders, and partners may receive qualified plan loans. (Section 612)</li> </ul>	Years beginning after 12/31/01.
<i>Increased dollar limits for simple retirement accounts</i>	<ul style="list-style-type: none"> <li>The annual limit on deferrals to 408(p) SIMPLE retirement accounts is increased to:                             <ul style="list-style-type: none"> <li>\$7,000 in 2002</li> <li>\$8,000 in 2003</li> <li>\$9,000 in 2004</li> <li>\$10,000 in 2005 and thereafter</li> </ul> </li> <li>Limit indexed in \$500 increments, starting in 2006. (Section 611)</li> </ul>	Calendar years beginning after 12/31/01.

Topic	Provision	Effective Date
<i>Additional catch-up contributions</i>	<ul style="list-style-type: none"> <li>• SEP and SIMPLE plans may permit participants age 50 and older to make annual catch-up contributions, after making all otherwise permitted contributions.</li> <li>• Catch-up contributions to SIMPLE plans are limited to:  \$500 for calendar years beginning in 2002  \$1,000 for 2003  \$1,500 for 2004  \$2,000 for 2005  \$2,500 for 2006 and thereafter</li> <li>• Catch-up contributions to SEP plans are limited to:  \$1,000 for calendar years beginning in 2002  \$2,000 for 2003  \$3,000 for 2004  \$4,000 for 2005  \$5,000 for 2006 and thereafter</li> <li>• Total deferrals (including catch-up contributions) cannot exceed 100% of pay.</li> <li>• Dollar limit is indexed in \$500 increments beginning in 2007.</li> <li>• Catch-up contributions are exempt from (i) all contribution and deduction limits and (ii) all nondiscrimination requirements, so long as the plan allows all eligible participants to make the same catch-up contributions.  (Section 631)</li> </ul>	Contributions in taxable years beginning after 12/31/01.
<i>Waiver of user fees</i>	<ul style="list-style-type: none"> <li>• User fees waived for employers with 100 or fewer employees for determination letter requests made within the plan's first five plan years.  (Section 620)</li> </ul>	Requests made after 12/31/01.

Topic	Provision	Effective Date
<i>Tax credit for small employer pension plan start up costs</i>	<ul style="list-style-type: none"> <li>An employer with 100 or fewer employees may take a tax credit (in lieu of a deduction) equal to 50% of “qualified start up costs” to establish and administer new 401(a), 403(a), SEP, and SIMPLE plans (including retirement education of employees).</li> <li>Credit capped at \$500 for the first credit year and each of the two following tax years, and at \$0 for subsequent years. (Section 619)</li> </ul>	Costs paid or incurred in taxable years beginning after 12/31/01, with respect to plans established after that date.
<b>INDIVIDUAL RETIREMENT ACCOUNTS</b>		
<i>Increased contribution limits</i>	<ul style="list-style-type: none"> <li>Annual IRA contribution limit is increased to:                             <ul style="list-style-type: none"> <li>\$3,000 for 2002-04</li> <li>\$4,000 for 2005-07</li> <li>\$5,000 for 2008 and thereafter</li> </ul> </li> <li>Limit is indexed in \$500 increments starting in 2009.</li> <li>Indirectly increases the Roth IRA limit. (Section 601)</li> </ul>	Calendar years beginning after 12/31/01.
<i>Additional catch-up contributions</i>	<ul style="list-style-type: none"> <li>An individual who has attained age 50 may contribute an additional \$500 for 2002 – 2005 and \$1,000 for 2006 and thereafter (not indexed).</li> <li>Indirectly increases the Roth IRA limit. (Section 601)</li> </ul>	Calendar years beginning after 12/31/01.

Topic	Provision	Effective Date
<i>Individual tax credit for IRA contributions</i>	<ul style="list-style-type: none"> <li>• Nonrefundable tax credit is allowed for elective deferrals and voluntary employee contributions to 401(k), 403(a), 403(b), and governmental 457(b) plans and IRAs.</li> <li>• Credit equals a specified percentage of the first \$2,000 in deferrals/contributions as follows:               <ul style="list-style-type: none"> <li>50% for joint incomes up to \$30,000</li> <li>20% for joint incomes between \$30,000 and \$32,500</li> <li>10% for joint incomes between \$32,500 and \$50,000</li> <li>0% for joint incomes over \$50,000</li> </ul> </li> <li>• Credit does not change the otherwise applicable tax treatment of the elective deferrals and contributions. (Section 618)</li> </ul>	Calendar years beginning after 12/31/01. Does not apply to calendar years beginning after 12/31/06.
<i>Minimum distributions</i>	<ul style="list-style-type: none"> <li>• The IRS is directed to update the regulations on minimum distributions to reflect current life expectancies. (Section 634)</li> </ul>	Not applicable.

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