

## Summary of Economic Growth and Tax Relief Reconciliation Act of 2001

Provision	Pre-EGTRRA	EGTRRA														
<b>IRA Limits</b>  <b>Act 601</b>	Current IRA contribution limit is \$2,000. The phase-out range for joint filers for contributions to a Roth IRA is \$150,000-\$160,000. Conversions from a traditional IRA to a Roth IRA can only be made by joint filers with less than \$100,000.	<b>IRA Contribution Limit</b> <table border="1"> <thead> <tr> <th>Year</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>2002 - 2004</td> <td>\$3,000</td> </tr> <tr> <td>2005 - 2007</td> <td>\$4,000</td> </tr> <tr> <td>2008 -</td> <td>\$5,000</td> </tr> </tbody> </table>	Year	Amount	2002 - 2004	\$3,000	2005 - 2007	\$4,000	2008 -	\$5,000						
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<b>IRA Catch Up</b>  <b>Act 601</b>	No provision	<b>IRA Catch Up</b> <table border="1"> <thead> <tr> <th>Year</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>2002 - 2005</td> <td>\$500</td> </tr> <tr> <td>2006</td> <td>\$1,000</td> </tr> </tbody> </table>	Year	Amount	2002 - 2005	\$500	2006	\$1,000								
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2006	\$1,000															
<b>IRA Cost of Living</b>  <b>Act 601</b>	No provision	Moved up in \$500 increments effective after 2008.														
<b>Deemed IRAs</b>  <b>Act 602</b>	No provision	408(q) effective 2003. Non-ERISA IRA Payroll Deduction Plans.														
<b>Contribution and Benefit Limits</b>  <b>Act 611</b>	<ul style="list-style-type: none"> <li>• 401(a)(17): annual compensation taken into account limited to \$170,000.</li> <li>• 402(g): elective deferrals limited to \$10,500 per year.</li> </ul>	<ul style="list-style-type: none"> <li>• 401(a)(17) compensation limit to \$200,000, and then indexed in \$5,000 increments.</li> </ul> <b>402(g) Elective Deferral Limits</b> <table border="1"> <thead> <tr> <th>Year</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>2002</td> <td>\$11,000</td> </tr> <tr> <td>2003</td> <td>\$12,000</td> </tr> <tr> <td>2004</td> <td>\$13,000</td> </tr> <tr> <td>2005</td> <td>\$14,000</td> </tr> <tr> <td>2006</td> <td>\$15,000</td> </tr> <tr> <td>2007&gt;</td> <td>\$500 increment increase for Cost of Living</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>• 415(b) annual benefit limit to</li> </ul>	Year	Amount	2002	\$11,000	2003	\$12,000	2004	\$13,000	2005	\$14,000	2006	\$15,000	2007>	\$500 increment increase for Cost of Living
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	• 415(b): maximum															

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<b>Contribution and Benefit Limits</b>  <b>Act 611</b>	annual benefits are the lesser of 100% of three-year high salary or \$140,000 (or less for pre-65 retirees).	\$160,000, and then indexed in \$5,000 increments.												
<b>Contribution and Benefit Limits</b>  <b>Act 611</b>	<ul style="list-style-type: none"> <li>• Age at which dollar limit applies without reduction; SSRA is age 65 - 67</li> <li>• 415(c): maximum defined contribution plan contribution is the lesser of \$35,000 or 25% of compensation.</li> </ul>	<ul style="list-style-type: none"> <li>• Age at which dollar limit applies without reduction; the new SSRA is age 62 - 65. Effective: limitation years that end in 2002.</li> <li>• 415(c) contribution limit to \$40,000, and then indexed in \$1,000 increments.</li> </ul>												
<b>Contribution and Benefit Limits</b>  <b>Act 611</b>	<ul style="list-style-type: none"> <li>• 457(b) contribution limit is generally \$8,500 per year.</li> <li>• SIMPLE: maximum elective deferral is \$6,500 per year.</li> </ul>	<ul style="list-style-type: none"> <li>• 457 elective deferral limit to \$15,000 over 5 years in \$1000 increments and then indexed in \$500 increments.</li> <li>• SIMPLE Elective Deferral               <table border="1" data-bbox="959 936 1425 1247"> <thead> <tr> <th>Year</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>2002</td> <td>\$7,000</td> </tr> <tr> <td>2003</td> <td>\$8,000</td> </tr> <tr> <td>2004</td> <td>\$9,000</td> </tr> <tr> <td>2005</td> <td>\$10,000</td> </tr> <tr> <td>2006&gt;</td> <td>\$500 increment increase for Cost of Living</td> </tr> </tbody> </table> </li> </ul>	Year	Amount	2002	\$7,000	2003	\$8,000	2004	\$9,000	2005	\$10,000	2006>	\$500 increment increase for Cost of Living
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<b>Provision</b>	<b>Pre-EGTRRA</b>	<b>EGTRRA</b>												
<b>Participant Loans for Shareholder-Employees</b>  <b>Act 612</b>	Prohibited	Prohibited transaction rules modified to allow for participant loans to sole proprietors, partners, and subchapter S corporation shareholders. Applies prospectively to preexisting loans.												
<b>Provision</b>	<b>Pre-EGTRRA</b>	<b>EGTRRA</b>												
<b>Modification of Top-Heavy Rules</b>  <b>Act 613</b>	A plan is generally considered "top heavy" if more than 60% of plan assets are held on behalf of "key employees." Key employees generally are: officers earning over half the section 415 defined benefit plan dollar limit (\$70,000 in 2001), 5%	The "top 10 owner" rule <ul style="list-style-type: none"> <li>• Officer status requires the employee to earn more than \$130,000. Eliminate the 4-year look back rule for identifying "key employees."</li> <li>• Matching contributions now count toward satisfying the top-heavy minimums.</li> <li>• A safe harbor 401(k) plan is now</li> </ul>												

## Summary of Economic Growth and Tax Relief Reconciliation Act of 2001

	<p>owners, 1% owners earning over \$150,000, and the 10 employees with the largest ownership interest in the business (as long as they earn more than \$30,000.) Family members of 5% owners are deemed to be key employees.</p> <p>Top-heavy plans must meet a special vesting schedule and make minimum contributions to all non-key employees to the extent contributions are made on behalf of key employees.</p>	<p>deemed to not be top-heavy.</p> <ul style="list-style-type: none"> <li>• The 5-year look-back rule applicable to distributions is shortened to one year. However, the 5-year look-back rule applies to in-service distributions.</li> <li>• Frozen top-heavy defined benefit plans are no longer required to make minimum accruals on behalf of non-key employees.</li> </ul>
Provision	Pre-EGTRRA	EGTRRA
<p><b>Elective Deferrals and Deduction Limit</b></p> <p>Act 614</p>	<p>Elective deferrals count against 404 deduction limits.</p>	<p>Elective deferrals are no longer considered employer contributions for purposes of section 404 deduction limits.</p>
Provision	Pre-EGTRRA	EGTRRA
<p><b>Repeal of Coordination Requirements for Section 457(b) Plans</b></p> <p>Act 615</p>	<p>A maximum of \$8,500 in compensation may be deferred per year in a 457(b) plan. This limit is generally reduced by elective deferrals under other types of arrangements.</p>	<p>The section 457 limit on deferred compensation is not reduced by elective deferrals under other types of arrangements.</p>
Provision	Pre-EGTRRA	EGTRRA
<p><b>Elimination of IRS User Fee for Determination Letters</b></p> <p>Act 620</p>	<p>Plan sponsors pay a user fee to the IRS to obtain a determination letter.</p>	<p>The IRS user fee is waived for any retirement plan maintained by an employer with 100 or less employees.</p>
Provision	Pre-EGTRRA	EGTRRA
<p><b>Deduction Limits</b></p> <p>Act 616</p>	<p>Profit-sharing plan cannot deduct contributions to the plan in excess of 15% of compensation.</p>	<p>Deduction limit for profit-sharing plans increased to 25% of compensation. 25% deduction limit under 404(a)(3)(A) applies to money purchase plans.</p>

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<b>Definition of Compensation</b>  <b>Act 616</b>	For purposes of the deduction limits under section 404, compensation does not include elective deferrals.	For purposes of deduction limits under section 404, the definition of compensation includes elective deferrals.																								
Provision	Pre-EGTRRA	EGTRRA																								
<b>Roth 401(k) and 403(b) Plans</b>  <b>Act 617</b>	No provision	Effective 2006, 401(k) and 403(b) plans can permit participants to elect a tax treatment for their deferrals similar to Roth IRA contributions.																								
Provision	Pre-EGTRRA	EGTRRA																								
<b>Tax Credits for Small Employer Plan Start Up Costs</b>  <b>Act 619</b>	Employer costs related to the establishment and maintenance of a retirement plan are generally deductible as business expenses.	Up to \$500 credit for first 3 years of a new plan. Small Employer is defined by the SIMPLE IRA definition for small employer.																								
Provision	Pre-EGTRRA	EGTRRA																								
<b>Tax Credit for Low Income Savers</b>  <b>Act 618</b>	No provision	Tax credit of up to \$1,000 (Section 25B) for IRA, 401(k), 403(b) & 457 plans. <table border="1"> <thead> <tr> <th>AGI Joint Return</th> <th>AGI Head of Household</th> <th>AGI All Others</th> <th>% of tax credit</th> </tr> </thead> <tbody> <tr> <td>0 - \$30,000</td> <td>0 - \$22,500</td> <td>0 - \$15,000</td> <td>50</td> </tr> <tr> <td>\$30,000-\$32,500</td> <td>\$22,500-\$24,375</td> <td>\$15,000-\$16,250</td> <td>20</td> </tr> <tr> <td>\$32,500-\$32,500-\$37,500</td> <td>\$24,375-\$24,375-\$37,500</td> <td>\$16,250-\$16,250-\$25,000</td> <td>10</td> </tr> <tr> <td>\$37,500-\$50,000</td> <td>\$24,375-\$37,500</td> <td>\$16,250-\$25,000</td> <td>10</td> </tr> <tr> <td>\$50,000-\$50,000</td> <td>\$37,500-\$37,500</td> <td>\$25,000-\$25,000</td> <td>10</td> </tr> </tbody> </table>	AGI Joint Return	AGI Head of Household	AGI All Others	% of tax credit	0 - \$30,000	0 - \$22,500	0 - \$15,000	50	\$30,000-\$32,500	\$22,500-\$24,375	\$15,000-\$16,250	20	\$32,500-\$32,500-\$37,500	\$24,375-\$24,375-\$37,500	\$16,250-\$16,250-\$25,000	10	\$37,500-\$50,000	\$24,375-\$37,500	\$16,250-\$25,000	10	\$50,000-\$50,000	\$37,500-\$37,500	\$25,000-\$25,000	10
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Provision	Pre-EGTRRA	EGTRRA																								
<b>Catch-up Contributions for Workers Age 50 and Older</b>  <b>Act 631</b>	No provision	Plans may allow individuals who are age 50 or older to make additional contributions to a 401(k), 403(b), 457 or SIMPLE. The catch-up contribution is not subject to nondiscrimination testing or deduction limits. <table border="1"> <thead> <tr> <th>Year</th> <th>Deferrals</th> <th>SIMPLEs</th> </tr> </thead> <tbody> <tr> <td>2002</td> <td>\$1,000</td> <td>\$500</td> </tr> <tr> <td>2003</td> <td>\$2,000</td> <td>\$1,000</td> </tr> <tr> <td>2004</td> <td>\$3,000</td> <td>\$1,500</td> </tr> <tr> <td>2005</td> <td>\$4,000</td> <td>\$2,000</td> </tr> <tr> <td>2006</td> <td>\$5,000</td> <td>\$2,500</td> </tr> </tbody> </table>	Year	Deferrals	SIMPLEs	2002	\$1,000	\$500	2003	\$2,000	\$1,000	2004	\$3,000	\$1,500	2005	\$4,000	\$2,000	2006	\$5,000	\$2,500						
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Provision	Pre-EGTRRA	EGTRRA																								
<b>Repeal of 25% of Compensation Limitation</b>	Annual contributions to a defined contribution	The 25% of compensation limitation under 415 (c)(1) replaced with 100% of																								

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<b>Act 632</b>	plan may not exceed the lesser of 25% of compensation or \$35,000.	compensation												
<b>Provision</b>	<b>Pre-EGTRRA</b>	<b>EGTRRA</b>												
<b>Faster Vesting of Employer Matching Contributions</b>	Employer matching contributions must be fully vested after the employee has completed 5 years of service, or must become vested in increments of 20% for each year beginning with the third year of service, with full vesting after the employee has completed seven years of service.	Employer matching contributions have to be vested under a maximum 3-year cliff or 6-year graded vesting schedule.												
<b>Act 633</b>		<table border="1"> <thead> <tr> <th>Years of Service</th> <th>Percent Vested</th> </tr> </thead> <tbody> <tr> <td>2</td> <td>20</td> </tr> <tr> <td>3</td> <td>40</td> </tr> <tr> <td>4</td> <td>60</td> </tr> <tr> <td>5</td> <td>80</td> </tr> <tr> <td>6</td> <td>100</td> </tr> </tbody> </table>	Years of Service	Percent Vested	2	20	3	40	4	60	5	80	6	100
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<b>Provision</b>	<b>Pre-EGTRRA</b>	<b>EGTRRA</b>												
<b>Simplification of Minimum Distribution Rules</b>	Section 401(a)(9) requires minimum distributions from retirement plans and IRAs at the later of age 70 ½ or retirement (except that deferral until retirement is not permitted with respect to IRAs and 5% owners).	Secretary of Treasury will modify life expectancy tables to reflect current life expectancy.												
<b>Act 634</b>														
<b>Provision</b>	<b>Pre-EGTRRA</b>	<b>EGTRRA</b>												
<b>Clarification of Tax Treatment of Section 457 Plan Benefits Upon Divorce</b>	An active employee's benefit under a qualified plan may be paid to a former spouse. QDRO rules do not apply to section 457(b) plans.	Distributions of section 457 plan benefits pursuant to a QDRO will now be taxed under the same rules applicable to qualified plans.												
<b>Act 635</b>														
<b>Provision</b>	<b>Pre-EGTRRA</b>	<b>EGTRRA</b>												
<b>Safe Harbor 401(k) Plan Hardship Withdrawals</b>	To qualify for this safe harbor, a participant receiving a hardship distribution must be prohibited from making elective contributions to the plan for the 12	The 12 month period is reduced to 6 months.												
<b>Act 636</b>														

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	months following the date of distribution.	
Provision	Pre-EGTRRA	EGTRRA
<b>Rollovers Between Different Types of Retirement Plans and IRAs</b>  <b>Act 641</b>	<p>An eligible rollover from a 401 plan may be rolled over by the employee into an eligible retirement plan within 60 days or directly rolled over to another 401 plan or an IRA.</p> <p>An eligible rollover from a 403 plan may be rolled over by the employee into an eligible retirement plan within 60 days or directly rolled over to another 403 plan or an IRA.</p> <p>Amounts rolled over from a 401 or 403(a) plan to a conduit IRA may later be rolled back to a 401 or 403(a) plan.</p>	<p>Please <a href="#">click here</a> for a comprehensive description of the new rollover requirements.</p>
Provision	Pre-EGTRRA	EGTRRA
<b>Treatment of Forms of Distribution</b>  <b>Act 645</b>	<p>If a participant's benefits are transferred from one plan to another, the transferee plan must preserve all forms of distribution that were available under the transferor plan.</p>	<p>An employee may elect to transfer benefits from one plan to another without requiring the transferee plan to preserve optional forms of benefits if the following requirements are met:</p> <ul style="list-style-type: none"> <li>• The transfer was a direct transfer.</li> <li>• The transfer was authorized under the terms of both plans.</li> <li>• The transfer was pursuant to a voluntary election by the participant.</li> </ul>
Provision	Pre-EGTRRA	EGTRRA
<b>Repeal of "Same Desk Rule"</b>  <b>Act 646</b>	<p>Under the "same desk rule", a distribution to a terminated employee is</p>	<p>The same desk rule is eliminated by replacing "separation from service" with "severance from employment."</p>

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	not allowed if the employee continues performing the same functions for a successor employer.	
Provision	Pre-EGTRRA	EGTRRA
<b>Purchase of Service Credit in Governmental Defined Benefit Plans</b>  Act 647	State and local employees cannot use the money in their 403(b) or 457 plans to purchase service credits.	State and local government employees are able to use funds from their 403(b) arrangements or section 457 plans to purchase service credits under their defined benefit plans.
Provision	Pre-EGTRRA	EGTRRA
<b>Employers May Disregard Rollovers for Purposes of Cash-Out Amounts</b>  Act 648	Terminated participants benefits may be cashed out if the nonforfeitable account does not exceed \$5,000.	Plans can ignore amounts attributable to rollovers when determining the cash-out amount.
Provision	Pre-EGTRRA	EGTRRA
<b>Time of Inclusion of Benefits Under Section 457 Plans</b>  Act 649	Amounts deferred under an eligible section 457 plan are includible in income when the amounts are paid or made available.	Amounts deferred under a governmental 457 plan are includible in income when paid. Minimum distribution rules are satisfied as long as it satisfies the rules of section 401(a)(9).
Provision	Pre-EGTRRA	EGTRRA
<b>Complete Repeal of 150% of Current Liability Funding Limit</b>  Act 651	Contributions to a defined benefit plan that exceed 150% of current liability are not tax deductible. This limit will phase up to 170% by 2005.	The limit would be phased-up in 5% increments beginning with the 2001 plan year. For plan years beginning after December 31, 2003, the current liability full funding limit would be completely repealed. Code section 404(a)(1)(D) will allow funding up to unfunded termination liability rather than unfunded current liability, and would be available to all plans regardless of size, provided the plan is covered by the PBGC.
Provision	Pre-EGTRRA	EGTRRA
<b>401(k) Investment in Employer Stock and Employer Real Property</b>  Act 655	Section 1524 of the Taxpayer Relief Act of 1997 places limits on investment of salary deferrals in employer stock or employer real property	Provision is clarified as not applying to elective deferrals invested in employer securities or real property before January 1, 1999.

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<b>ESOP Dividends May be Reinvested Without Loss of Dividend Deductions</b>  <b>Act 662</b>	Dividend deductions are allowed on dividends paid on employer stock to an unleveraged ESOP only if the dividends are paid to employees in cash.	Employer can deduct dividends paid to an ESOP when its employees are allowed to elect to take the dividends in cash or leave them in the plan for reinvestment in employer stock.
Provision	Pre-EGTRRA	EGTRRA
<b>Repeal of Unnecessary Transition Rule</b>  <b>Act 663</b>	The Tax Reform Act of 1986 modified the definition of highly compensated employee, but provided limited grandfather relief from these changes. 1996 legislation substantially changed the definition of HCE.	The special 1986 Act grandfather applicable to the definition of HCE is repealed.
Provision	Pre-EGTRRA	EGTRRA
<b>Clarification of Employer-Provided Retirement Education</b>  <b>Act 665</b>	Employer-provided retirement advice is not generally considered income to the employees, although some uncertainty exists.	Clarifies that retirement advice provided to employees on an individual basis would be a nontaxable fringe benefit to the extent such services are made available on substantially equivalent terms.
Provision	Pre-EGTRRA	EGTRRA
<b>Repeal of the Multiple Use Test</b>  <b>Act 666</b>	In addition to the ADP and ACP tests, 401(k) plans must also satisfy the multiple use test.	The multiple use test is repealed.