

Part VII

Retirement Planning Supplement

Update on Qualified Retirement Plans

Congress amended the deductibility limits for all qualified retirement plans in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). These increased limits affect all individual and employer-sponsored plans and have built-in indexes until 2008. Here is a summary of the changes to those referred to in this text, with the current allowable limits for 2004.

Defined Benefit Plans:

The new maximum benefit that can be provided is the lesser of 100 per cent of pay or \$165,000 a year at normal retirement age, an amount that is scheduled to index by \$5,000 a year until 2008.

Profit-Sharing Plans:

Employer deductions may not exceed 25 per cent of payroll. The maximum allocation to any one participant is now limited to 100 per cent of pay or \$41,000, indexed annually in \$1,000 increments until 2008.

Money-Purchase Plans:

Employer deductions may not exceed 25 per cent of payroll. The maximum allocation to any one participant is now limited to 100 per cent of pay or \$41,000, indexed annually in \$1,000 increments until 2008.

401(k) Plans:

Employer deductions may not exceed 25 per cent of payroll. The maximum allocation to any one participant is now limited to 100 per cent of pay or \$41,000, indexed annually in \$1,000 increments until 2008.

Also, employee deferrals cannot exceed 15 per cent of pay (including any employer contributions), or \$13,000, whichever is less. The deferral amount indexes annually at \$1,000 a year until 2008.

And there is a special catch-up provision for employees over Age 50. These may defer an additional \$3,000 a year, which increases to \$4,000 in 2005 and \$6,000 in 2006 and then in \$500 increments thereafter until 2008.

SIMPLE Plans:

For both SIMPLE IRAs and SIMPLE 401(k)s employees may now defer up to 100 per cent of pay up to \$9,000 a year, an amount that will increase to \$10,000 in 2005 and then remain level.

Special catch-up provisions for employees over 50 apply here, too. They may contribute an additional \$1,500 in 2004, an amount indexing annually by \$500 until 2006.

SEP-IRAs:

Employer contributions may not exceed 25 per cent of payroll. The maximum allocation to any one participant is now limited to 25 per cent of pay or \$41,000, whichever is less. This amount is indexed in \$1,000 increments until 2008.

KEOGH Plans:

The maximum contribution remains 20 per cent of pre-tax income or 25 per cent of after-tax income. (The two produce the same dollar amount). However, the maximum contribution for any one person has been increased to \$40,000 but is not scheduled to index.

IRAs:

In creating the popular Roth IRAs (which are non-deductible) Congress complicated IRA planning. Regular IRAs now come in two forms—deductible and non-deductible. A taxpayer may have one or the other, but not both. But a taxpayer may also choose to split his IRA contribution between either a deductible or non-deductible regular IRA and a Roth IRA. (Or elect on a Roth IRA.)

What determines whether a regular IRA is deductible or not is the taxpayer's income and filing status. For those single filers earning less than \$36,000 in taxable income in 2004 all regular IRA contributions are deductible. The threshold becomes \$56,000 for joint filers. All taxpayers above these income levels cannot deduct regular IRA contributions. Also, no one who is a participant in an employer-sponsored qualified retirement plan may deduct any IRA contribution, regardless of income. Taxpayers are also excluded from making deductible contributions if their spouse is a participant in an employer-sponsored plan and they are filing a joint return.

Whether an IRA contribution is deductible or not, taxpayers are limited to a new allowable schedule. For 2004 the maximum contribution is \$3,000, an amount that will increase to \$4,000 for 2005, 2006 and 2007 and then to \$5,000 for 2008.

There are also special catch-up provisions for taxpayers over the age of 50. These may contribute \$3,500 in 2004, \$4,500 in 2005, \$5,000 in 2006 and 2007 and \$6,000 in 2008.

Joint filers who are legally married may make a qualifying contribution for each spouse.

Finally, the contribution limits apply to the total of all IRA contributions, meaning any splitting between regular and Roth IRAs must be allocated between the two accounts.