

VI. Pension and Retirement Provisions



Under current law, an individual with earned income may transfer \$2000 into a tax-deductible IRA or a non-deductible IRA, commonly referred to as a Roth IRA. The option to transfer up to \$2000 exists if the individual has compensation in excess of that amount, he or she is not a participant in a company plan or he or she is below a specific phase-out level of adjusted gross income. With deductible IRAs, withdrawals are taxed as ordinary income.

In addition, withdrawals from tax-deductible IRAs prior to 59 ½ are subject to an additional 10% early withdrawal penalty, with exceptions for disabilities, certain periodic payments, medical expenses over 7 ½% of AGI, health insurance, education expenses or first-time home buyers expenses up to \$10,000. Since the Roth IRA is funded with after-tax cash contributions, the contributions grow tax-free and may be withdrawn without tax. However, the 10% penalty tax on early withdrawals may apply unless a distribution is made 5 years after the creation of the Roth, after the age of 59 ½, due to death or disability, or for first-time home buyers up to \$10,000.

-EGTRRA 2001 expands contribution amounts and also creates a new category for individuals age 50 and above-

[Increased IRA Contributions may be made in amounts specified in the following schedule:](#)

Year	Regular Contributions	50+ Contribution
2001	\$2,000	\$2,000
2002	\$3,000	\$3,500
2003	\$3,000	\$3,500

Year	Regular Contributions	50+ Contributions
2004	\$3,000	\$3,500
2005	\$4,000	\$4,500
2006	\$4,000	\$5,000
2007	\$4,000	\$5,000
2008	\$5,000	\$6,000
2009	\$5,000 Plus Indexing	\$6,000 Plus Indexing

The contribution limits are also generally increased for many other types of plans. For example, limits under 401(K), 403(B) and 457 plans will be increased to allow contributions annually up to \$15,000 when the phase-in is completed. The \$170,000 compensation limits for plans will be increased gradually to \$200,000.