

THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001

HIGHLIGHTS OF PROVISIONS AFFECTING RETIREMENT PLANS

Below is a summary of many of the retirement-related provisions of *The Economic Growth and Tax Relief Reconciliation Act of 2001* (the "Act"). The summary is based on interpretations of certain provisions.

You should consult appropriate counsel for additional information about the Act.

Unless otherwise indicated, these provisions are effective for years beginning after December 31, 2001.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAS)

PROVISIONS	CURRENT LAW	NEW LAW								
Increased IRA contribution limit	The maximum IRA contribution is \$2,000 annually.	The IRA contribution limit is increased as follows: <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Year</u></th> <th style="text-align: right;"><u>Annual Contribution Limit</u></th> </tr> </thead> <tbody> <tr> <td>2002–2004</td> <td style="text-align: right;">\$3,000</td> </tr> <tr> <td>2005–2007</td> <td style="text-align: right;">\$4,000</td> </tr> <tr> <td>2008</td> <td style="text-align: right;">\$5,000</td> </tr> </tbody> </table> <p>The dollar limit after 2008 will be indexed for inflation in \$500 increments.</p>	<u>Year</u>	<u>Annual Contribution Limit</u>	2002–2004	\$3,000	2005–2007	\$4,000	2008	\$5,000
<u>Year</u>	<u>Annual Contribution Limit</u>									
2002–2004	\$3,000									
2005–2007	\$4,000									
2008	\$5,000									
IRA catch-up contributions	Not applicable.	Individuals who are 50 or older (by 12/31 of the calendar year) will be allowed to make catch-up contributions to IRAs, as follows: <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Year</u></th> <th style="text-align: right;"><u>Annual Catch-up Limit</u></th> </tr> </thead> <tbody> <tr> <td>2002–2005</td> <td style="text-align: right;">\$500</td> </tr> <tr> <td>2006 & thereafter</td> <td style="text-align: right;">\$1,000</td> </tr> </tbody> </table>	<u>Year</u>	<u>Annual Catch-up Limit</u>	2002–2005	\$500	2006 & thereafter	\$1,000		
<u>Year</u>	<u>Annual Catch-up Limit</u>									
2002–2005	\$500									
2006 & thereafter	\$1,000									
Deemed IRAs under employer plans	A qualified retirement plan or Section 403(b) annuity cannot include an IRA.	A plan can allow a participant to make voluntary after-tax contributions to a separate account that will be treated in the same manner as either a traditional or Roth IRA. Such accounts must meet the requirements for IRAs under Internal Revenue Code ("IRC") Section 408. Effective for years beginning after 12/31/2002.								

EMPLOYER-SPONSORED RETIREMENT PLANS

Contribution/Benefit Limits

PROVISIONS	CURRENT LAW	NEW LAW															
<p>Income tax credit for low- and middle-class income savers</p>	<p>Not applicable.</p>	<p>A non-refundable tax credit is available to individuals who make pre-tax contributions to 401(k), 403(b) or 457 plans or to IRAs. The credit applies to up to \$2,000 in contributions. Eligibility for and the rate of the credit depends on the individual's adjusted gross income as follows:</p> <table border="1" data-bbox="867 625 1412 793"> <thead> <tr> <th><u>Credit</u></th> <th><u>Individual</u></th> <th><u>Joint</u></th> </tr> </thead> <tbody> <tr> <td>50%</td> <td>\$0–\$15,000</td> <td>\$0–\$30,000</td> </tr> <tr> <td>20%</td> <td>\$15,001–\$16,250</td> <td>\$30,001–\$32,500</td> </tr> <tr> <td>10%</td> <td>\$16,251–\$25,000</td> <td>\$32,501–\$50,000</td> </tr> <tr> <td>0%</td> <td>\$25,000+</td> <td>\$50,000</td> </tr> </tbody> </table>	<u>Credit</u>	<u>Individual</u>	<u>Joint</u>	50%	\$0–\$15,000	\$0–\$30,000	20%	\$15,001–\$16,250	\$30,001–\$32,500	10%	\$16,251–\$25,000	\$32,501–\$50,000	0%	\$25,000+	\$50,000
<u>Credit</u>	<u>Individual</u>	<u>Joint</u>															
50%	\$0–\$15,000	\$0–\$30,000															
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10%	\$16,251–\$25,000	\$32,501–\$50,000															
0%	\$25,000+	\$50,000															
<p>Increased limits on 401(k), 403(b) and SAR SEP elective deferrals</p>	<p>Employees are currently limited to a maximum of \$10,500 in annual employee pre-tax elective deferrals under 401(k), 403(b) and SAR SEP plans.</p>	<p>The maximum annual elective deferral limit will eventually be increased to \$15,000, as follows:</p> <table border="1" data-bbox="867 905 1227 1100"> <thead> <tr> <th><u>Year</u></th> <th><u>Limit</u></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> </tbody> </table> <p>The maximum elective deferral amount will be indexed for inflation in \$500 increments.</p>	<u>Year</u>	<u>Limit</u>	2002	\$11,000	2003	\$12,000	2004	\$13,000	2005	\$14,000	2006	\$15,000			
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<p>Catch-up 401(k), 403(b) and SAR SEP elective deferrals</p>	<p>Participants in 403(b) plans with at least 15 years of service and relatively low contribution histories may make additional contributions of up to \$3,000 per year, subject to a \$15,000 maximum on aggregate catch-up contributions.</p> <p>No catch-up contributions allowed for 401(k) or SAR SEP plans.</p>	<p>Participants who are age 50 or older (by 12/31 of the relevant plan year) will be allowed to make pre-tax catch-up contributions each year, as follows:</p> <table border="1" data-bbox="867 1318 1279 1549"> <thead> <tr> <th><u>Year</u></th> <th><u>Annual Contribution Limit</u></th> </tr> </thead> <tbody> <tr> <td>2002</td> <td>\$1,000</td> </tr> <tr> <td>2003</td> <td>\$2,000</td> </tr> <tr> <td>2004</td> <td>\$3,000</td> </tr> <tr> <td>2005</td> <td>\$4,000</td> </tr> <tr> <td>2006</td> <td>\$5,000</td> </tr> </tbody> </table> <p>After 2006, the maximum annual catch-up contribution amount will be indexed for inflation in \$500 increments.</p> <p>Catch-up contributions are not subject to either nondiscrimination testing or the contribution limits.</p> <p>Catch-up contributions are not taken into account for determining employer's maximum deduction limit under Section 404 of the IRC.</p>	<u>Year</u>	<u>Annual Contribution Limit</u>	2002	\$1,000	2003	\$2,000	2004	\$3,000	2005	\$4,000	2006	\$5,000			
<u>Year</u>	<u>Annual Contribution Limit</u>																
2002	\$1,000																
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EMPLOYER-SPONSORED RETIREMENT PLANS

Contribution/Benefit Limits (continued)

PROVISIONS	CURRENT LAW	NEW LAW												
Increased limits for SIMPLE IRA plans	Employees of small employers are currently limited to a maximum of \$6,500 in annual employee elective deferrals under SIMPLE IRA plans.	<p>The maximum annual elective deferral limit will eventually be increased to \$10,000. as follows:</p> <table> <thead> <tr> <th><u>Year</u></th> <th><u>Annual Dollar Limit</u></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> </tbody> </table> <p>After 2005, the maximum deferral amount will be indexed for inflation in \$500 increments.</p>	<u>Year</u>	<u>Annual Dollar Limit</u>	2002	\$7,000	2003	\$8,000	2004	\$9,000	2005	\$10,000		
<u>Year</u>	<u>Annual Dollar Limit</u>													
2002	\$7,000													
2003	\$8,000													
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Catch-up SIMPLE IRA elective deferrals	Not applicable.	<p>Participants who are age 50 or older (by 12/31 of the relevant plan year) will be allowed to make elective deferral catch-up contributions, as follows:</p> <table> <thead> <tr> <th><u>Year</u></th> <th><u>Annual Catch-up Limit</u></th> </tr> </thead> <tbody> <tr> <td>2002</td> <td>\$500</td> </tr> <tr> <td>2003</td> <td>\$1,000</td> </tr> <tr> <td>2004</td> <td>\$1,500</td> </tr> <tr> <td>2005</td> <td>\$2,000</td> </tr> <tr> <td>2006</td> <td>\$2,500</td> </tr> </tbody> </table> <p>After 2006, the maximum annual catch-up contribution limit will be indexed for inflation in \$500 increments.</p>	<u>Year</u>	<u>Annual Catch-up Limit</u>	2002	\$500	2003	\$1,000	2004	\$1,500	2005	\$2,000	2006	\$2,500
<u>Year</u>	<u>Annual Catch-up Limit</u>													
2002	\$500													
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Increase in deduction limit for profit sharing and stock bonus plans	Deduction for contributions by an employer to profit sharing and stock bonus plans, including 401(k) plans, is generally limited to 15% of the total compensation paid to eligible employees.	The annual limit on deductible contributions to profit sharing (or stock option) plans is increased to 25% of the total compensation paid to eligible employees.												
Defined contribution plan Section 415 limits	Annual contributions to a defined contribution plan are limited to the lesser of \$30,000 or 25% of the employee's compensation. There is a maximum exclusion allowance (MEA) for 403(b) plans.	<p>The annual limit on amounts contributed to a participant's defined contribution plan account is increased to the lesser of 100% of compensation or \$40,000.</p> <p>The \$40,000 limit is indexed for inflation in \$1,000 increments.</p> <p>The MEA for 403(b) plans is repealed.</p>												
Defined benefit plan Section 415 limits	The annual benefit under a defined benefit plan is limited to the lesser of \$140,000 or 100% of average compensation over the highest 3 years.	The annual benefit dollar limit is increased to \$160,000, indexed in \$5,000 increments. The 100% of average compensation is repealed. There is an actuarial reduction for benefits commencing prior to age 62.												

EMPLOYER-SPONSORED RETIREMENT PLANS

Contribution/Benefit Limits (continued)

PROVISIONS	CURRENT LAW	NEW LAW
<p>Compensation limit</p>	<p>The compensation that may be taken into account in determining contributions or benefits under a qualified retirement plan is limited to \$170,000 (for 2001).</p>	<p>The annual limit on compensation in determining contributions or benefits is increased to \$200,000 and will be indexed in \$5,000 increments.</p>
<p>Creation of “Roth” accounts in 401(k) and 403(b) plans</p>	<p>Not applicable.</p>	<p>Commencing in 2006, 401(k) and 403(b) plans may allow participants to elect to treat elective deferrals in a similar manner as “Roth” contributions to an IRA.</p> <p>These will be after-tax contributions, but must be tested under the 401(k) ADP test along with elective deferrals, and are aggregated with an employee’s deferrals in computing the individual’s 402(g) limit.</p> <p>The earnings on these amounts will not be subject to taxation, provided certain requirements are satisfied (e.g., the contributions have been in the plan for at least 5 years).</p> <p>These contributions, along with their investment earnings, may be rolled into a Roth IRA.</p> <p>Separate accounting will be necessary to track “Roth” contributions.</p>
<p>457(b) contribution limits</p>	<p>Contributions under an “eligible” deferred compensation plan described in Code section 457(b) are limited to the lesser of \$8,500 or 33 1/3% of the employee’s includible compensation.</p> <p>This limit on deferred compensation is reduced dollar-for-dollar by an employee’s elective deferrals under 401(k) and 403(b) plans.</p> <p>A limited catch-up rule allows contributions of up to \$15,000 for the 3 years preceding the employee’s normal retirement age.</p>	<p>The limit on an employee’s elective deferral contributions is increased to be the same as the limits for 401(k) and 403(b) plans; i.e., \$11,000 in 2002, increasing in \$1,000 increments up to \$15,000 in 2006.</p> <p>The requirement that pre-tax contributions to a 457 plan be aggregated with elective deferrals to various other plan types including 401(k) and/or a 403(b) plans in determining an individual’s maximum pre-tax contribution for a calendar year is repealed, as is the 33 1/3% of includible compensation limitation.</p>
<p>Definition of compensation for purposes of deduction limits</p>	<p>Deductible contributions to qualified plans are limited based on eligible employees’ aggregate compensation. For this purpose, compensation generally includes only taxable compensation – 401(k) deferrals are not taken into account.</p>	<p>For the purpose of determining the maximum deductible amount, elective deferrals are included in the definition of compensation. Elective deferrals are not subject to the deduction limits.</p>

EMPLOYER-SPONSORED RETIREMENT PLANS

Contribution/Benefit Limits (continued)

PROVISIONS	CURRENT LAW	NEW LAW
Repeal of 150% of current liability funding limit	Contributions to a defined benefit plan are not deductible to the extent that plan assets exceed the lesser of 150% of the plan's current liability or 100% of the accrued liability (which takes into account future benefits). The 150% figure is scheduled to increase to 170% by 2005.	The limitation on current liabilities is increased to 165% in 2002, 170% in 2003, and is repealed for plan years beginning after December 31, 2003.
ESOP dividends may be reinvested without loss of dividend deduction	Deductions are allowed on dividends paid on employer stock under an unleveraged ESOP only if the dividends are paid to employees in cash.	The employer will be allowed a deduction on dividends paid on employer stock if employees are given an election to either receive the dividend in cash or to reinvest the dividend in employer securities in the plan.
Faster vesting of employer-matching contributions	Employer-matching contributions must vest at least as quickly as under a 5-year "cliff" vesting schedule or a 7-year "graded" schedule.	Vesting in employer-matching contributions must be calculated in accordance with a vesting schedule that provides vesting at least as rapidly as either a 3-year "cliff" vesting schedule or a 6-year "graded" schedule beginning with 20% vesting in second year of service.

Changes to Nondiscrimination Testing Rules

PROVISIONS	CURRENT LAW	NEW LAW
Employees of tax-exempt entities disregarded for 401(k) plan testing	Employees of a tax-exempt entity who are covered under a 403(b) plan may have to be taken into account in determining whether a 401(k) plan maintained by a related entity (e.g., a taxable subsidiary) complies with the IRS coverage rules.	Employees who are eligible to make elective deferrals under a 403(b) arrangement do not have to be aggregated with the employees of a related entity which sponsors a 401(k) plan in applying the coverage rules, provided no employee of a 403(b) sponsor participates in the 401(k) plan and 95% of the non-excludable employees participate in the 401(k) plan.
Repeal of "multiple use" test	The multiple use test combined 401(k), after-tax, and employer-matching contributions on behalf of highly compensated employees in another nondiscrimination test, even if the contributions met the ADP/ACP tests.	The multiple use test is repealed.

EMPLOYER-SPONSORED RETIREMENT PLANS

Changes to Nondiscrimination Testing Rules (continued)

PROVISIONS	CURRENT LAW	NEW LAW
Modifications of top-heavy rules	<p>Complicated “top heavy” rules apply to plans maintained by small employers.</p> <p>A plan is top-heavy if at least 60% of the contributions/benefits are held for “key employees.”</p> <p>If a plan is top-heavy, minimum employer contributions are required for “non-key” employees, and an accelerated vesting schedule applies to employer contributions.</p>	<p>Changes to the top-heavy rules include:</p> <p>A revised definition of “key employee.”</p> <p>The 5-year look-back rule for distributions is reduced to 1 year.*</p> <p>Employer-matching contributions may now be used to satisfy the top-heavy minimum contribution requirement.</p> <p><small>*Five-year look-back rule continues to apply to in-service distributions.</small></p>

Distribution/Portability

PROVISIONS	CURRENT LAW	NEW LAW
Rollovers between various types of plans	<p>Amounts paid from a 401(a) or 403(b) plan may only be rolled over to the same type of plan or to an IRA.</p> <p>457 plan amounts may only be transferred to another 457 plan. Amounts may not be rolled over from an IRA (other than a “conduit” IRA) to any type of employer plan.</p>	<p>Distributions from any defined contribution arrangement (401(k), 403(b), 457, etc.) will be eligible to be rolled over to any other defined contribution arrangement. Taxable amounts can be rolled over to a defined contribution plan from an IRA arrangement.</p> <p>The IRS is given the authority to extend the 60-day rollover period in those circumstances where the failure for waiver would be against equity and good conscience (i.e., where failure to comply with the 60-day period was beyond the control of the recipient).</p>
Rollovers of after-tax contributions	<p>Distributions of after-tax contributions may not be rolled over to an IRA or to a qualified plan.</p>	<p>After-tax contributions may be rolled over to an IRA or to another qualified plan, provided that the plan maintains separate accounting of these amounts, including earnings. The rollover of after-tax amounts between qualified plans must be accomplished through a direct trustee to trustee transfer.</p>
Rollovers of certain hardship distributions	<p>Distributions of hardship distributions attributable to 401(k) or 403(b) deferrals may not be rolled over.</p>	<p>Any amounts, including employer contributions, distributed as the result of a financial hardship will not be eligible to be rolled over.</p>

EMPLOYER-SPONSORED RETIREMENT PLANS

Distribution/Portability (continued)

PROVISIONS	CURRENT LAW	NEW LAW
<p>Rollovers of involuntary distributions of less than \$5,000</p>	<p>A qualified plan may distribute a participant's benefit without his consent if the benefit is less than \$5,000.</p>	<p>Any involuntary distribution greater than \$1,000 but not greater than \$5,000 will have to be rolled over to an IRA, unless the participant elects a cash distribution or a rollover to another qualified plan or IRA.</p> <p>The Department of Labor is directed to issue regulations, which will provide a safe harbor under which the employer may designate the IRA and selection of investments that will satisfy ERISA's fiduciary standards.</p> <p>This provision does not become effective until the Department of Labor issues such final regulations.</p>
<p>Safe harbor for hardship distributions</p>	<p>The IRS has provided that a 12-month suspension from making elective contributions to 401(k) plans by participants who have received a hardship distribution will constitute a safe harbor in determining whether the distribution is considered a hardship distribution.</p>	<p>The IRS is directed to revise its regulations to reduce the period during which a participant is prohibited from making elective deferral contributions after a hardship distribution from 12 months to 6 months.</p>
<p>Relaxation of "same desk" rule</p>	<p>401(k) plan distributions are limited to separation from service, death, disability, age 59½, hardship, plan termination, and certain corporate transactions.</p> <p>Under the same desk rule, the IRS has indicated that there is no separation from service when an employee continues in the same job after a corporate action. Similar rules apply to 403(b) and 457(b) plans.</p>	<p>The "same desk rule" is eliminated by changing the distributable event from "separation from service" to "severance from employment."</p> <p>Comparable changes have been made for 403(b) and 457(b) plans.</p>

EMPLOYER-SPONSORED RETIREMENT PLANS

Miscellaneous Changes

PROVISIONS	CURRENT LAW	NEW LAW
Employer-provided retirement education	It is unclear whether the value of employer-provided retirement education is taxable to the employee.	Employer-provided retirement advice provided on an individual basis will not be a taxable fringe benefit if it is available on a nondiscriminatory basis.
Elimination of forms of distribution	Transfer of assets from one qualified plan to another plan requires that the transferee plan maintain the same forms of distribution that were available under the transfer or plan. This is sometimes referred to as the “anti-cutback” rule.	<p>An employee may elect to transfer his benefit from one qualified plan to another qualified plan without the transferee plan maintaining the optional forms of benefit if:</p> <ul style="list-style-type: none"> • The transfer was a direct transfer and it was permissible under both plans • The transfer resulted from a voluntary election by the employee after receiving proper notice • The employee could have elected a lump-sum distribution in lieu of the transfer <p>A defined contribution plan may also eliminate optional forms of distribution if the employee is eligible to receive a lump-sum distribution at the time the optional form is being eliminated and the lump-sum distribution is equal to or greater than the benefit that would be paid under the optional form benefit.</p>
Expanded notice of a reduction in benefits	Participants are required to be notified at least 15 days before the effective date of an amendment that reduces future benefit accruals.	Expands the type of information to be provided in a notice to participants of a reduction in benefits (including the conversion to a cash balance plan) and the time period that the notice must be given. The IRS is directed to provide guidance relating to the content and timing of the notice. This notice requirement is effective as of June 7, 2001. Good faith reliance will apply until regulatory guidance is issued.

Important Notice: In June 2001, President Bush signed into law *The Economic Growth and Tax Relief Reconciliation Act of 2001* (“the Act”). The Act contains a number of pension reform and income tax provisions that may provide expanded opportunities for you as you plan for your retirement. Certain provisions are effective immediately and others will be phased in over the next several years. Many of the provisions affect retirement savings vehicles such as IRAs, SIMPLE plans, 401(k)s, and other defined contribution and defined benefit plans, but are not reflected in this material, unless otherwise indicated. You will be receiving additional information describing how these provisions may affect you or your retirement savings vehicle. Please consult your Investment Professional for more information.

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