

THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001

FREQUENTLY ASKED QUESTIONS

Below are Frequently Asked Questions about many of the retirement-related provisions of *The Economic Growth and Tax Relief Reconciliation Act of 2001* (the “Act”). The questions and answers are 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.

Q. Did retirement legislation pass?

A. On Thursday, June 7, 2001, President Bush signed *The Economic Growth and Tax Relief Reconciliation Act of 2001* into law. Provisions for enhancements to retirement savings were included as part of the \$1.35 trillion tax-cut package.

Q. What is the new retirement legislation?

A. Overwhelming bipartisan support resulted in widespread changes for both individuals and small-business owners. *The Economic Growth and Tax Relief Reconciliation Act of 2001* provides for improvements and increased retirement savings for all individuals. Highlights include:

- An increase in the annual amount that can be contributed to IRAs and other types of retirement plans
- A catch-up savings provision for individuals age 50 or older
- Enhanced portability of retirement assets
- Ease of testing rules for qualified plans and 403(b) plans

Note: The amount of this additional contribution varies by plan type

Q. When will the legislative changes become effective?

A. Many of the retirement changes are effective January 1, 2002. Some of the retirement provisions will be phased in gradually from 2002–2008. Other non-retirement changes will begin at different times; for example, the new income tax rates will begin to be phased in on July 1, 2001.

Q. How much can be contributed to an IRA?

A. The contribution limit for Traditional and Roth IRAs will be gradually increased to \$5,000 by 2008 and then may be adjusted for inflation annually. Beginning with contributions for tax year 2002, the IRA contribution limit increases to \$3,000 or 100% of compensation, whichever is less.

The catch-up savings provision allows individuals age 50 or older to make a larger annual IRA contribution. For tax years 2002–2005, an additional \$500 can be contributed to IRAs; beginning in tax year 2006, an additional \$1,000 can be contributed. Refer to the table on the following page for new contribution limits. **For calendar year 2001, the limit remains \$2,000.**

TAX YEAR	STANDARD IRA CONTRIBUTION LIMIT	"CATCH-UP" CONTRIBUTION LIMIT	MAXIMUM CONTRIBUTION FOR TAXPAYERS AGES 50+ (BY 12/31 OF TAX YEAR)
2001	\$2,000	\$0	\$2,000
2002	\$3,000	\$500	\$3,500
2003	\$3,000	\$500	\$3,500
2004	\$3,000	\$500	\$3,500
2005	\$4,000	\$500	\$4,500
2006	\$4,000	\$1,000	\$5,000
2007	\$4,000	\$1,000	\$5,000
2008	\$5,000	\$1,000	\$6,000
2009	\$5,000*	\$1,000	\$6,000
2010	\$5,000*	\$1,000	\$6,000

*As indexed for inflation.

Q. How much can be contributed to an employer-sponsored retirement plan?

- A. The maximum annual elective deferral limit will be gradually increased to \$15,000 by 2006 for participants in 401(k), 403(b) and 457 plans.

In addition, the catch-up savings provision allows individuals age 50 or older who participate in a 401(k), 403(b), and 457 plan to make larger annual salary deferral contributions. Beginning in tax year 2002, an additional \$1,000 can be contributed. This catch-up contribution limit increases each year, until it reaches \$5,000 in tax year 2006 (and may be indexed thereafter for inflation). The table below outlines the new contribution limits.

TAX YEAR	STANDARD PLAN CONTRIBUTION	"CATCH-UP" CONTRIBUTION LIMIT	MAXIMUM CONTRIBUTION FOR TAXPAYERS AGES 50+ (BY 12/31 OF TAX YEAR)
2001	\$10,500	\$0	\$10,500
2002	\$11,000	\$1,000	\$12,000
2003	\$12,000	\$2,000	\$14,000
2004	\$13,000	\$3,000	\$16,000
2004	\$14,000	\$4,000	\$18,000
2005	\$15,000	\$5,000	\$20,000
2006 & later	\$15,000*	\$5,000*	\$20,000*

*As indexed for inflation.

Q. How are SIMPLE Plans affected by the new legislation?

- A. The limit on elective deferrals to SIMPLE Plans will be gradually increased to \$10,000 by 2005 (and may be indexed for inflation thereafter).

Participants who are age 50 or older will be able to make larger annual salary deferral contributions. Beginning in tax year 2002, an additional \$500 can be contributed. This catch-up contribution limit increases each year until it reaches \$2,500 in tax year 2006 (and may be indexed thereafter for inflation). The table below outlines the new contribution limits.

TAX YEAR	STANDARD PLAN CONTRIBUTION LIMIT	"CATCH-UP" CONTRIBUTION LIMIT	MAXIMUM CONTRIBUTION FOR TAXPAYERS AGES 50+ (BY 12/31 OF TAX YEAR)
2001	\$6,500	\$0	\$6,500
2002	\$7,000	\$500	\$7,500
2003	\$8,000	\$1,000	\$9,000
2004	\$9,000	\$1,500	\$10,500
2005	\$10,000	\$2,000	\$12,000
2006 & later	\$10,000*	\$2,500*	\$12,500

*As indexed for inflation.

Q. How are employer-sponsored retirement plans for small businesses affected?

- A. The new legislation makes retirement security available to millions of workers by expanding small-business retirement plans and allowing workers to save more each year for retirement. The retirement savings package contains a substantial number of provisions for small businesses; only a few are mentioned below.

General (Beginning in 2002)

- The maximum compensation amount on which annual contributions can be based increases from \$170,000 to \$200,000
- The general annual contribution limit for defined contribution plans increases from \$35,000 to \$40,000 (and may be indexed thereafter for inflation)
- Small-business employers may be eligible for tax credits for costs related to the establishment and maintenance of a retirement plan

SEP-IRA

The new annual contribution limit beginning in 2002 is \$30,000 (15% of \$200,000).

Money Purchase and Profit Sharing Plans

New rules modify the deductible contribution percentage on Profit Sharing plans – beginning in tax year 2002, the deductible contribution limit for Profit Sharing plans increases from 15% to 25% of compensation. For both Profit Sharing and Money Purchase plans, the compensation limit on which contributions can be based will increase to \$200,000. The maximum annual dollar contribution per participant is capped at \$40,000, beginning in 2002.

Q. What does portability mean and what has changed?

- A. The term portability is used here to refer to the ability to move your retirement assets between certain types of retirement plans, and between certain types of retirement plans and IRAs. The bill includes several changes that may give you more flexibility and control over your retirement assets.

Beginning in 2002, it will be permissible to move eligible distributions between many types of employer-sponsored retirement plans (such as 401(k), 403(b), and 457 plans) and IRAs. The portability provisions also allow for the rollover of after-tax contributions between IRAs and qualified plans; HOWEVER, a plan must allow for, and be able to support, this provision. Additionally, 457 plan investors will be able to roll over their assets to an IRA (either direct rollover or 60-day rollover).

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.

Clearing, custody or other brokerage services may be provided by National Financial Services LLC, or Fidelity Brokerage Services LLC, Members NYSE, SIPC