



## "Smoothing the Course" for Retirement Saving

### The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)

If you are saving for retirement, you may want to give a nod of appreciation to those responsible for passage of The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Across-the-board changes allow retirement plan participants to set aside funds at an accelerated rate. Those nearing retirement can take advantage of special "catch-up" provisions that apply to Individual Retirement Accounts (IRAs), 401(k) plans, 403(b) plans, and 457 plans.

Annual contribution limits for **traditional** and **Roth IRAs** are capped at \$5,000 in 2009 for those under age 50. Those age 50 or over can contribute \$6,000 in 2009. These contribution limits are now indexed to inflation. (Keep in mind, if you decide to take distributions from either a Roth, or traditional IRA, prior to retirement and age 59½, the funds will be taxed as ordinary income and may be subject to a 10% federal income tax penalty. This applies only to the withdrawal of earnings from a Roth, which you must own for at least five years. The principal is not taxed.)

If you have a 401(k) or 403(b) savings plan, EGTRRA allows contributions of up to \$16,500 for 2009, an increase of \$1,000 over the previous year. The limit for those in 457 plans is also \$16,500 in 2009. Going forward, the contribution amounts for all three of these retirement savings plans will be indexed annually for inflation. (You may, however, be limited by your employer in the amount you can contribute, based on a percentage of your compensation.)

### Special "Catch-Ups" for Those 50 or Older

Meanwhile, in accordance with the EGTRRA, taxpayers who are 50 years old, or older, are allowed to make "catch-up" contributions to their retirement plans. Traditional IRA and eligible Roth IRA holders can save an extra \$1000 a year in 2009. Those with eligible 401(k) or 403(b) or 457 plans can save an additional \$5,500 in 2009. The catch-up amount for IRAs is indexed for inflation in \$500 annual increments.

### Stay on Course

With the ever changing nature of tax laws, a great deal can happen on the legislative front with respect to retirement plan savings. As a result, you should check regularly to determine if you're "up to par" with all of your savings opportunities.

It is important to note that The Economic Growth and Tax Relief Reconciliation Act of 2001 contains a "sunset provision", which stipulates that after 2010, without further action by Congress, all tax and retirement plan laws will revert to their status prior to EGTRRA's passage.