

# BENEFIT PLANNING INC.

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# Your Qualified Plan:

Updates, News, and Ideas

## New Limits Apply New Law for New Year

The IRS has released new limits that impact Qualified Plans.

Type of Limitation	2002	2001
401(k) Elective Deferrals	\$11,000	\$10,500
401(k) Catch up (age 50 and older)	\$1,000	N/a
Max Defined Benefit	\$160,000	\$140,000
Max Defined Contribution	\$40,000	\$35,000
Annual Compensation Limit	\$200,000	\$170,000
Highly Compensated (\$80,000 index)	\$85,000	\$85,000
Income Subject to Social Security Tax	\$84,900	\$80,400

The 401(k) Deferral limit has increased to \$11,000, with the possibility for an additional \$1,000 in "catch up" contribution for participants age 50 and up. Yet other increases offer more significant opportunities.

The Defined Contribution limit has increased from \$35,000 to \$40,000. This limit had been fixed at \$30,000 for many years, but will now increase in \$1,000 increments under EGTRRA.

The maximum Defined Benefit Limit increase from \$140,000

to \$160,000 continues the revitalization of the use of Defined Benefit plans. We find many who thought these plans too expensive or who thought their pensions were fully funded now can make effective use of large pension contributions

Benefit Planning, Inc. welcomes the opportunity to optimize your plan design.

### "New Comparability" Final Regulations

**The new rules will impact many of our clients.** The Treasury Department has issued final regulations that affect tiered allocation (new comparability) plans and certain defined benefit plan arrangements. The application of the new rules begins for plan year commencing in 2002. The most significant change is the increase in the minimum contribution from 3% to 5% of compensation (5% to 7.5% for certain defined benefit/defined contribution combination plans).

We will soon be sending a more detailed Bulletin to our clients that are directly affected. "Benefits" based testing for nondiscrimination remains the key to retirement plan design for many firms.

## EGTRRA and You

Much has been said about the 2001 law, EGTRRA. There are, however, a few key points that impact the large part of our clients.

So, here are the “biggies”:

- 1) We advise the merging or conversion of Money Purchase plans to Profit Sharing plans.
- 2) We advise that 401(k) is now a viable option for even very small firms (and even “one man” plans).
- 3) We advise increasing the deferral percentage limit to allow up to 100% of pay to be deferred, especially for “non-Highly Compensated Employees”.
- 4) We advise analysis of plan design in light of new Defined Benefit plan limits.

EGTRRA requires that a model amendment be adopted. We will soon be sending more details on exactly how we will assist you with this. As of this printing, California has not yet adopted these Federal provisions: we will keep you informed.

## GUST Restatement – Another Extension

Related to EGTRRA, the IRS extended the GUST deadline to no earlier than December 31, 2002. We expect the final deadline to be sometime in the first quarter of 2003.

To remind you, GUST is the set of laws passed since 1994 that now require the re-documentation of all retirement plans. We have succeeded in completing the task for a good many of our clients, and are going forward full speed.

Each plan continues to be carefully analyzed to ensure that all applicable “operational compliance” and plan design aspects are integrated into your new plan document, including the EGTRRA changes mentioned above.

We have set up a multi-level review system that mandates that each Plan be reviewed by at least three administrative, actuarial or legal staff prior to document preparation.

## E-Update

Benefit Planning, Inc. continues its efforts to achieve all the potential of the Internet. Our Web site has streamlined your ability to receive documents, forms and templates. Right now you can get important request forms, change your beneficiary or change your deferral percentage online at [www.BenefitPlanning.LA](http://www.BenefitPlanning.LA)

Our desire is to receive employee data in electronic form. To this end we have an Excel template that you can use on the site. The idea is to save effort on your part by allowing the use of your existing computerized employee data, and in turn to save Benefit Planning from having to re-input that same data.

**Did you know?...** our Nationwide Insurance clients can have their quarterly Participant statements mailed directly to Participants' home addresses. Call if you're interested in this feature.