

Important Improvements to Your 401(k) Profit Sharing Plan

Catch-Up Contributions

One of the big questions participants have been asking this year is how the new age-50 catch-up contribution limits work. The rules are fairly straightforward, but there are a few nuances that are important to understand.

How They Work

Assuming you are age 50 or older in 2002, the limit works like this: you can make an additional \$1,000 pretax contribution to your 401(k) plan, on top of your regular pretax contribution limit. In future years this will be indexed like this:

Year	Regular dollar limit	Catch up available
2002	\$11,000	\$1,000
2003	\$12,000	\$2,000
2004	\$13,000	\$3,000
2005	\$14,000	\$4,000
2006	\$15,000	\$5,000

The nice thing about the catch-up limit is that it is not subject to any other federal or plan contribution limits. Catch-ups are made on top of your current limits.

Even if your plan has restrictions that prevent you from contributing the full \$11,000, you can still contribute the \$1,000 on top of your other limit. This holds true even if your contributions are capped because you are considered a highly compensated employee (HCE). So, if you are an HCE who is 50 or older, since your plan allows catch-up contributions, you should be able to contribute \$1,000 over your HCE limit in 2002 without worrying about a refund.

Increased Deferral Percentage limit

Last year, your plan limited your deferral to 15% or 20% of your pay. New law changes make it so this is no longer necessary. Now, you may defer up to 100% of your pay. So, for example, a participant making \$33,000 could defer \$11,000 for 2002, even though that is 33% of pay.

New Saver's Tax Credit

If you participate in your plan you may be eligible to receive up to a \$1,000 tax credit. This tax credit works to give you a really good incentive to save for your own retirement. There are important limitations, of course; check with your benefits administrator for more info.

Consolidating Your Retirement Accounts

Before, your plan would not accept a transfer of your Traditional IRA accounts. New rules allow the plan to accept these Traditional IRA accounts, or Rollover IRAs from any qualified plan. This allows you to put all your retirement accounts into a single, well diversified account. Doing this makes it so you have less "homework" to do and simplifies your investment asset allocation.