

EGTRRA

Education IRA

Education related provisions include changes to the Education IRA. The maximum contribution (which was \$500) is \$2,000 in 2002, and the contribution deadline will be extended to April of the following year (instead of year end).

Funds may be used for elementary and secondary school tuitions, supplies, etc. in addition to higher education expenses.

529 College Savings Plans

As of 2002, the earnings on 529 plan accounts will be distributed tax-free for qualified higher education expenses. Another significant change to the 529 rules allows the donor to transact a rollover once every 12 months keeping the same beneficiary. Furthermore, under the beneficiary rules, first cousins are now included as members of the family in the event the current beneficiary doesn't use the account.

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Legend Equities Corporation,
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**Economic Growth
and Tax Relief
Reconciliation Act
of 2001**

EGTRRA

How EGTRRA Affects You, the 403(b) Plan Participant

EGTRRA increased the Maximum Annual Contribution limits on 403(b)s starting in 2002. It also added an Over 50 Catch-up Provision that can be used on its own or with the 15 Year Catch-up Provision. EGTRRA also established Pension Portability rules allowing rollovers from one plan type to another. Other significant changes made by EGTRRA include the increased limits on IRA contributions and changes made to rules governing 529 plans.

Maximum Annual Contribution for 2002

The Maximum Annual Contribution (MAC) for 2002 is \$11,000 or 100% of compensation, whichever is less. The deferral limit of \$11,000 will increase by \$1,000 each year until 2006, increasing the MAC as follows:

<u>Year</u>	<u>MAC</u>
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006	\$15,000

Over 50 Catch-up for 2002

The Over 50 Catch-up Provision was added to allow employees who are 50 and older to contribute an additional \$1,000 in 2002. This amount will increase by \$1,000 each year until 2006:

<u>Year</u>	<u>MAC</u>	<u>Over 50</u>	<u>Total</u>
2002	\$11,000	\$1,000	\$12,000
2003	\$12,000	\$2,000	\$14,000
2004	\$13,000	\$3,000	\$16,000
2005	\$14,000	\$4,000	\$18,000
2006	\$15,000	\$5,000	\$20,000

The Over 50 Catch-up Provision can be used in conjunction with the 15 Year Catch-up Provision.

15 Year Catch-up Provision

The Economic Growth and Tax Relief Act of 2001 did **not** make changes to the 15 Year Catch-up Provision. To qualify for this catch-up, you must have 15 years of service with your current employer AND your prior contributions cannot average more than \$5,000 per year.

The 15 Year Catch-up Provision allows you to make an additional contribution of up to \$3,000 per year, not to exceed \$15,000 over your lifetime. What this means is, if you qualify, you can contribute an additional \$3,000 for 5 years OR \$1,500 for 10 years. This catch-up can be used in conjunction with the Over 50 Catch-up Provision. Let's take a look at the combined increases:

<u>Year</u>	<u>MAC</u>	<u>Over 50</u>	<u>15 Year</u>	<u>Total</u>
2002	\$11,000	\$1,000	\$3,000	\$15,000
2003	\$12,000	\$2,000	\$3,000	\$17,000
2004	\$13,000	\$3,000	\$3,000	\$19,000
2005	\$14,000	\$4,000	\$3,000	\$21,000
2006	\$15,000	\$5,000	\$3,000	\$23,000

Pension Portability

In the past, when an employee left employment and became eligible for a distribution, that employee was able to roll his or her 403(b) into an IRA. Now, you can also roll this money into a new employer's 403(b), a new employer's 401(k), a new employer's 457, or a new employer's plan qualified under 401(a) (i.e., money purchase plans, profit sharing plans, defined benefit plans, etc.). The employer's plan receiving a rollover must be willing to accept rollovers from unlike plans.

Increased IRA Limits

The maximum IRA contribution was increased to \$3,000 for 2002. By 2008, the limit will reach \$5,000 and thereafter, the limit will be indexed to inflation in \$500 increments. Taxpayers who are age 50 or more may be entitled to make "catch-up" contributions as follows:

<u>Year</u>	<u>IRA Limit</u>	<u>Over 50</u>	<u>Total</u>
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

You still need to meet eligibility requirements in order to make Roth IRA contributions and to determine the deductibility of your traditional IRA.