SUMMARY/COMPARISON OF BUSH ADMINISTRATION SAVINGS PROPOSALS

Item	Current Law	Bush Administration FY2004 Budget	Bush Administration FY2005 Budget
LIFETIME SAVINGS ACCOUNTS (LSAs)			
Eligibility to Contribute	No provision.	Universal availability, i.e., no income or age limits. Contributions could be made regardless of earned income.	Same as FY2004 Budget proposal.
Contribution Limit	No provision.	$7,500 (indexed for inflation in future years).	$5,000 (indexed for inflation in future years).
Tax Rules	No provision.	Contributions would not be deductible, but earnings and distributions would be tax-free no matter when or why received. No minimum required distribution (MRD) rules would apply during the owner's life.	Same as FY2004 Budget proposal.
Consolidation and Conversion of Other Vehicles	No provision.	Individuals would have a transition period during which they could convert balances from section 529 qualified state tuition programs, Coverdell Education Savings Accounts (ESAs), or Archer Medical Savings Accounts (MSAs). These vehicles would remain in place, and could accept future contributions.	Similar to FY2004 Budget proposal, with some changes. MSAs (or any other health savings vehicle) are not affected by the proposal, and it does not appear that amounts may be converted from MSAs to LSAs. In addition, there would be limitations on conversions from existing ESAs and 529 plans to LSAs. In particular, the maximum amount that could be rolled over from an ESA to an LSA would be limited to the sum of the account as of the end of 2003, plus any new contributions and earnings thereon for 2004. The maximum amount that could be rolled over from a 529 plan to an LSA would be the lesser of $50,000 or the amount in the 529 plan as of the end of 2003, plus any new contributions and earnings thereon for 2004. Total rollovers to an LSA attributable to 2004 contributions to an individual's ESAs and 529 plans would not be allowed to exceed $5,000 (plus any earnings on those contributions). 529 plans also could be offered inside an LSA, e.g., a State agency that administers a 529 plan could also offer an LSA with the same investment options.

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Savers' Credit Coordination	A targeted non-refundable tax credit is provided to low- and moderate-income savers who make salary reduction contributions to eligible retirement savings plans (e.g., 401(k), 403(b), 457(b)) or contributions to IRAs. This savers' credit is claimed on the individual's tax return, and applies to the first $2,000 in savings contributions. The amount of the credit varies depending on income, and is not available to joint filers with adjusted gross income over $50,000 ($25,000 in the case of single filers).	No discussion.	The savers' credit would not apply to contributions to an LSA.
Effective Date	N/A.	LSAs would become effective in 2003.	LSAs would become effective on January 1, 2005.
RETIREMENT SAVINGS ACCOUNTS (RSAs)			
Eligibility to Contribute	Roth IRA eligibility is phased out for single filers with income over $95,000 and joint filers with income over $150,000. Eligibility to make deductible IRA contributions is phased out for single filers with income over $45,000 and joint filers with income over $65,000 for joint filers (in 2004), except that individuals who are not active participants in an employment-based retirement plan generally may make deductible contributions regardless of income. Contributions may only be made to the extent of earned income.	Universal availability, i.e., no income or age limits. Contributions could only be made to the extent of earned income.	Same as FY2004 Budget proposal.
Contribution Limit	The maximum annual contribution that may be made to all IRAs is $3,000 (in 2004), scheduled to increase to $5,000 in 2008 (indexed for inflation thereafter). Individuals age 50 and over are permitted to make additional IRA catch-up contributions of $500 per year (in 2004), scheduled to increase to $1,000 in 2006.	$7,500 (indexed for inflation in future years). There is no discussion of the application of catch-up contributions.	$5,000 (indexed for inflation in future years). There is no discussion of the application of catch-up contributions.
Consolidation and Conversion of Other Vehicles	Taxpayers (i.e., both single and joint filers) with income of $100,000 or less generally may convert a traditional IRA to a Roth IRA. The amount converted generally is included in gross income (except for purposes of conversion eligibility).	RSAs replace nearly all IRAs. Roth IRAs would be re-named RSAs. Deductible and nondeductible traditional IRAs would be repealed, and these vehicles could accept no new contributions other than rollovers from employment-based plans. Traditional IRAs could be converted into RSAs with all amounts converted being taxable (but all future earnings being tax-free). Taxpayers who convert IRAs to RSAs before January 1, 2004, could include the	Same as FY2004 Budget proposal, except that the deadline for using the 4-year spread rule would be December 31, 2005.

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		conversion amount in income ratably over four years. There would be no income limits on conversion eligibility.	
Tax Rules	Qualified distributions (i.e., post-age 59½, due to death or disability, or for certain first-time homebuyer expenses) from Roth IRAs generally are not included in income so long as the distribution occurs after the 5-taxable year period beginning with the taxable year in which the individual first made a Roth IRA contribution. The minimum required distribution (MRD) rules apply to traditional IRA owners beginning at age 70½, but only apply to Roth IRA owners after death.	Contributions would not be deductible, but earnings and qualified distributions (i.e., post-age 58 or on account of death or disability) would be tax-free. No MRD rules would apply during the owner's life.	Same as FY2004 Budget proposal.
Savers' Credit Coordination	See above.	No discussion.	The savers' credit would apply to contributions to an RSA.
Effective Date	N/A.	RSAs would become effective in 2003.	RSAs would become effective on January 1, 2005.
EMPLOYER RETIREMENT SAVINGS ACCOUNTS (ERSAs)			
In General	There are a number of different types of defined contribution retirement plans that employers may sponsor. Certain of these plans may only be sponsored by certain types of employers (e.g., 403(b) and 457(b) plans of tax-exempt organizations and State and local governments, SIMPLEs and SEPs of small businesses). Different rules apply to the various different types of defined contribution plans.	The myriad types of existing defined contribution plans would be consolidated into one new type of plan -- the ERSA. An ERSA would be similar to -- and generally follow the rules applicable to -- 401(k) plans, except for a number of technical changes (e.g., simplification of the nondiscrimination rules, tightening of the coverage test, repeal of cross-testing and permitted disparity).	Similar to FY2004 Budget proposal, with several modifications (see below). In addition, it is made clear that the ERSA and its rules are only applicable to defined contribution-type accounts that permit employee deferrals or employee after-tax contributions.
Non-discrimination Rules	Qualified plans must comply with rules that prohibit contributions or benefits that discriminate in favor of "highly compensated employees" (HCEs). In addition to the general nondiscrimination requirement, defined contribution plans that include after-tax or matching contributions are subject to the actual contribution percentage (ACP) test. 401(k) plans are also subject to an actual deferral percentage (ADP) test, which generally measures employees' elective deferral rates. Detailed regulations provide calculations for satisfying these rules, including optional safe harbors.	The nondiscrimination rules would be simplified by providing a single test under which the average contribution percentage of HCEs could not exceed 200% of the non-HCEs percentage if the non-HCEs' average contribution percentage were 6% or less. No nondiscrimination testing would apply if the non-HCEs' average contribution percentage exceeded 6%. As an alternative, a design-based, non-discrimination safe harbor would be provided for ERSAs in which all eligible non-HCEs are eligible to receive fully vested employer contributions (either matching or nonelective) of at least 3% of compensation (e.g., a matching contribution of 50 cents on the dollar on contributions up to 6% of compensation). The ACP and ADP tests would be repealed. Existing and different	Same as FY2004 Budget proposal.

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		nondiscrimination regimes for governmental and tax-exempt employers would be retained.	
Special Rule for Small Employers	There are a variety of different types of qualified retirement plans and arrangements designed specifically for small businesses, including SIMPLE plans which generally may be sponsored by employers with 100 or fewer employees.	SIMPLEs and SARSEPs would be repealed, and IRA funding vehicles would not be permitted for ERSAs.	Employers with 10 or fewer employees making at least $5,000 during the prior year would be able to fund an ERSA by contributing to a custodial account, similar to an IRA, provided that the employer's contributions satisfy the design-based ERSA nondiscrimination safe harbor. Such employers would be provided annual reporting relief in connection with the custodial account, as well as relief from most of the ERISA fiduciary rules under circumstances similar to the fiduciary relief currently provided to sponsors of SIMPLE IRAs.
Minimum Coverage Requirements	Qualified plans must satisfy one of the following minimum coverage tests: (1) the proportion of non-HCEs covered by the plan is not less than 70 percent of the proportion of HCEs, or (2) the plan covers a proportion of NHCEs determined by Treasury/IRS to be nondiscriminatory and the average benefit percentage of NHCEs is at least 70 percent of the average benefit percentage of NHCEs.	Plans would be required to cover a percentage of nonhighly compensated employees (NHCEs) that is not less than 70 percent of the percentage of highly compensated employees (HCEs) who are covered.	No provision.
Top Heavy Rules	Additional tests and requirements are applied to plans in which more than 60 percent of the benefits accrue to "key employees", i.e., officers with compensation in excess of $130,000, 5% percent owners, and 1% owners with compensation in excess of $150,000.	The additional tests and requirements for top-heavy plans would not apply.	No provision.
Permitted Disparity	Permitted disparity refers to the practice of allowing larger contributions or benefits with respect to compensation in excess of the Social Security wage base.	Permitted disparity would not be allowed.	No provision.
Cross Testing	Cross-testing allows defined contribution plans to satisfy nondiscrimination tests based on projected account balances at retirement age, rather than current contribution rates.	Cross-testing, to the extent that it allows defined contribution plans to satisfy nondiscrimination tests based on projected annuity benefits at retirement age rather than current contribution rates, would be repealed.	No provision.

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Definition of Compensation	There are multiple definitions of "compensation" for different retirement plan purposes, such as limits on contributions and benefits, limits on deductions for contributions, determination of HCEs and key employees, and the application of nondiscrimination and coverage rules.	The multiple definitions of "compensation" would be replaced by a uniform definition of compensation equal to the amount required to be shown on the Form W-2, plus elective deferrals. [Based on informal discussions with Treasury officials, it is our understanding that this proposal would only apply for testing purposes, and not for purposes of determining participants' benefits, but this is not clear under the Treasury Department documents.]	No provision.
Definition of "Highly Compensated Employee"	An HCE is any employee who is a 5-percent owner in the current or prior year or who had compensation above $90,000 (indexed) in the prior year, except that employers may elect that employees who are not 5-percent owners are only HCEs if they both satisfy the $90,000 and are in the top 20 percent of employees of the employer ranked by compensation.	An HCE would be those earning over the Social Security wage base ($87,900 in 2004) for the prior year.	No provision.
Roth ERSAs	Beginning after December 31, 2005, 401(k) and 403(b) plans are permitted to add an after-tax Roth 401(k) or Roth 403(b) feature permitting participants in the plan to choose between making elective deferrals under the traditional "front-loaded" 401(k) feature or under the new after-tax feature. Roth 401(k) and Roth 403(b) contributions will receive back-loaded tax incentives like those afforded Roth IRAs, *i.e.*, there is no immediate income tax exclusion, but all distributions from the account are tax-free. In most other respects, Roth contributions are treated in the same manner as traditional front-loaded elective deferrals.	The effective date for Roth contributions to ERSAs would be after December 31, 2003.	The effective date for Roth contributions to ERSAs would be after December 31, 2004.
Effective Date	N/A.	ERSAs would become effective for years beginning after December 31, 2003.	ERSAs would become effective for years beginning after December 31, 2004.