



AMERICAN BENEFITS  
COUNCIL

THE IMPORTANCE OF EGTRRA PERMANENCE  
TO THE RETIREMENT SYSTEM

- **Need to Make Retirement Savings Opportunities Permanent.** It is very important to the retirees of tomorrow that the retirement savings and pension reform provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) – from catch-up contributions to small business pension incentives to expanded IRAs and 401(k)s – be made permanent. These important reforms have proven extremely successful. Approximately 5.2 million households opened traditional or Roth IRAs for the first time in the 2-1/2 years following EGTRRA (Investment Company Institute), and the number of participants in 401(k) plans increased 23 percent between 2000 and 2004, from 42 million to more than 54 million (The Vanguard Group). Under EGTRRA, these provisions are due to sunset at the conclusion of 2010 (reverting back to pre-EGTRRA law and limits), but provisions of the Pension Protection Act (H.R. 2830) would make them permanent.
- **Pension and Savings Limits Will Be Greatly Reduced Without Permanence.** EGTRRA increased the amount that employees, employers and individual savers could contribute to tax-favored retirement plans. EGTRRA increased the employee 401(k) savings limit to \$15,000 (from \$10,500) and the combined limit on employee and employer contributions to defined contribution plans to \$40,000 (from \$35,000). EGTRRA also removed the 25 percent compensation cap on contributions for an individual employee, a cap that worked to the particular disadvantage of low and moderate-income savers. Under prior law (which would be reinstated if EGTRRA is allowed to sunset), a worker earning \$30,000 would be limited to \$7,500 in total employee and employer contributions. EGTRRA also increased the IRA limit to \$5,000 (from \$2,000).
- **Making the Saver's Credit Permanent.** EGTRRA permanence would also make permanent the EGTRRA tax credit for low and moderate-income savers who contribute to workplace retirement plans or IRAs. Under this provision, single individuals earning up to \$25,000 and married couples earning up to \$50,000 can receive a tax credit of up to 50 percent of the first \$2,000 contributed to a plan or IRA. EGTRRA recognized that low-income individuals can find it particularly difficult to devote a portion of current income to retirement savings and gave them an extra financial incentive to do so. The Saver's Credit has proven quite successful. According to official IRS data, more than 5.4 million households claimed the Saver's Credit in 2003.

- **Catch-up Contributions for Older Workers Will End Without Permanence.** EGTRRA also instituted new catch-up contributions for individuals age 50 and older – older workers can contribute an extra \$5,000 to defined contribution plans and an extra \$1,000 to IRAs. If EGTRRA is not made permanent, these important new retirement savings tools – which have been particularly important for baby-boomers, women who have been out of the workforce, and those who have simply fallen behind in their retirement savings – will disappear altogether.
- **Pension Portability Will be Undercut Without Permanence.** EGTRRA removed existing barriers that prevented employees from being able to take their retirement savings with them when they switched jobs, particularly when they moved from different employment sectors. EGTRRA also eliminated much of the red tape that had discouraged companies from allowing their employees to roll over retirement benefits earned at prior workplaces. For the first time, employees changing jobs were permitted to take their retirement savings with them when they moved between 401(k), 403(b) and state and local 457 arrangements. This provided portability across employment sectors and allowed employees to consolidate their savings in a single account, which made account management simpler and reduced the fees employees had paid for multiple accounts. EGTRRA also allows workers to roll their tax-deductible IRA funds into their workplace retirement plan. As with catch-up contributions, if EGTRRA is not made permanent, this portability will end, once again presenting employees with a confusing and frustrating set of barriers that too often led them to cash out their retirement savings.
- **Regulatory Reform and Small Business Assistance Will Disappear Without Permanence.** EGTRRA also made important regulatory simplifications (e.g., repeal of the multiple use test, modification of the top-heavy rules), a number of which are particularly important in helping small businesses initiate retirement plan coverage for their employees. Large employers benefit from many of these simplifications as well, as they help to lessen the expense of maintaining a workplace retirement program in today's increasingly competitive and cost-conscious economic environment.