

ICI Applauds Enactment of Tax Reform Package, June 2001

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Washington, DC, June 7, 2001 - The Investment Company Institute today applauded the enactment of the \$1.35 trillion tax reconciliation package, the "[Economic Growth and Tax Relief Reconciliation Act of 2001](#)," which contains several significant provisions to help Americans save for retirement and education.

"This legislation makes the nation's retirement plan system significantly more responsive to the retirement savings needs of working Americans and contains important provisions to encourage more Americans to save for a child's education," Institute President Matthew P. Fink said.

Retirement and pension provisions contained in the tax package will raise the annual contribution limits on individual retirement plans, such as 401(k) plans and IRAs. For example:

- The maximum contribution level for IRAs will be increased to \$5,000 by 2008 from \$2,000. Beginning next year, individual investors will be allowed to contribute \$3,000 to IRAs. That limit will rise to \$4,000 in 2005 through 2007.
- The maximum investment levels for 401(k), 403(b), and 457 plans will be increased in stages to \$15,000 from \$10,500. The contribution limits will be increased to \$11,000 next year, \$12,000 in 2003, \$13,000 in 2004, \$14,000 in 2005, and \$15,000 in 2006.
- The bill makes it easier for employees to "roll over" pension savings to another plan when they change jobs.
- The bill provides catch-up opportunities for individuals 50 years and older to help them save for retirement later in their working lives.

"This legislation would not have passed but for the leadership and determination of Sens. Charles Grassley (R-IA) and Max Baucus (D-MT) and Reps. Rob Portman (R-OH) and Ben Cardin (D-MD)," Fink said.

Education provisions in the legislation will permit greater contributions to education IRAs and provide new incentives for families to participate in other college savings plans. Specifically:

- The maximum annual investment levels for education IRAs will be increased to \$2,000 from \$500 annually beginning in 2002. Also, tax-free withdrawals will be allowed not only for college but also for elementary and secondary schooling.
- The bill allows tax-free distributions from "Section 529" plans, which permit parents or grandparents to save for college expenses in investment accounts. Previously, withdrawals from these accounts were taxed at the child's tax rate. In another change, benefactors now will be able to move their 529 investment from one state's plan to another, tax-free, once a year.

The Institute has long [expressed support](#) for congressional measures to provide Americans with opportunities to save for retirement and education. The vast majority of mutual fund shareholders say that saving for retirement and education is their primary financial goal. Recent Institute research shows that 42.5 million U.S. households owned IRAs last year, up from 34.7 million the year before. American workers also are increasingly taking advantage of 401(k) plans to build a foundation for their retirement security.

Scheduled Increases in 401(k), 403(b), 457 and IRA Contribution Limits

YE AR	401(k) & 403(b) Plan Limit	457 Plan Limit	IRA Limit	401(k), 403(b) & 457 Catch-up	IRA Catch-up
Cur rent	\$10,500	\$8,500	\$2,000		
200			\$3,000		

2	\$11,000	\$11,000	00	\$1,000	\$500
200 3	\$12,000	\$12,000	\$3,0 00	\$2,000	\$500
200 4	\$13,000	\$13,000	\$3,0 00	\$3,000	\$500
200 5	\$14,000	\$14,000	\$4,0 00	\$4,000	\$500
200 6	\$15,000	\$15,000	\$4,0 00	\$5,000	\$1,000
200 7	Indexed for inflation in \$500 increments	Indexed for inflation in \$500 increments	\$4,0 00	Indexed for inflation in \$500 increments	\$1,000 in later years, not indexed for inflation
200 8	\$5,000				
200 9	Indexed for inflation in \$500 increments				
201 0					