



RETIREMENT SAVINGS PERMANENCE BULLETIN

INCREASED LIMITS ARE IMPORTANT FOR RETIREMENT PLANNING AND SECURITY

ACTION REQUESTED: Make permanent the retirement savings increased benefit limit provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) so that the retirement security of future retirees will be strengthened. These increased limits, which apply to both employer-sponsored plans and IRAs, are scheduled to expire in 2011.

BACKGROUND: EGTRRA increased the 401(k) employee savings limit to \$15,000 by 2006 (from \$10,500) and the IRA limit to \$5,000 by 2008 (from \$2,000). It also removed the 25 percent compensation cap on contributions for an individual to an employer plan, which had particularly restricted low- and moderate-income savers. For example, 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 instituted new catch-up contributions for individuals age 50 and older – allowing them to annually contribute an extra \$5,000 to 401(k) plans and an extra \$1,000 to IRAs. Catch-up contributions provide a significant savings boost for baby boomers, women previously out of the workforce, and those who fell behind in their retirement savings.

CONCLUSION: Since they will greatly increase projected income replacement ratios at retirement, *the increased limits on retirement savings and age 50+ catch-up contributions in EGTRRA must be made permanent as part of the final language in the pension reform bill (H.R. 2830/S. 1783).*¹

With permanently increased limits and catch-up contributions, workers at all income levels with consistent access to employer-sponsored plans throughout their career will have increased income replacement ratios, according to a recent issue brief. Availability of IRAs, with their increased limits, during lapses in 401(k) coverage has a very positive effect on income replacement rates, particularly for lower-income employees.²

For more information, contact the American Benefits Council's **Jan Jacobson**, director, retirement policy, at jjacobson@abcstaff.org, or **Lynn Dudley**, vice president, retirement policy, at ldudley@abcstaff.org. *Both can be reached by phone at (202) 289-6700.*

1 The Pension Protection Act of 2005 (H.R. 2830) and the Pension Security and Transparency Act of 2005 (S. 1783) are currently being merged by a conference committee. Contained only within H.R. 2830 is a provision to make permanent the retirement savings provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).

2 Sarah Holden, Investment Company Institute, Jack VanDerhei, Temple University and EBRI Fellow. The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement. *Employee Benefit Research Institute Issue Brief*, No. 283, July 2005. Projections in the article are based on employees already participating in an employer-sponsored plan. The projections are based on historical financial market returns based on U.S. financial market experience from 1926 through 2001. Projections use EBRI/ICI database information at year-end 2000, including participant account balances and annual incomes, and forecasts future activity based on typical behaviors observed among millions of 401(k) participants at different ages, tenures and income levels.