

New Law to Equalize 401(k) and 457 Plans; Double Contributions



(June 14, 2001) Beginning Jan. 1, 2002, MTA employees not only can belong to both the 401(k) and 457 savings plans, but also can more than double the amount of money they're allowed to sock away for retirement.

Those are only two of the benefits in a comprehensive tax reform bill President Bush signed into law earlier this month. And, for the first time, it makes the 457 Plan as flexible as the 401(k) Plan.

Under the new law, employees may contribute up to \$11,000 annually in either the 401(k) Plan or the 457 Plan – or into both, for a total of \$22,000. The contributions limit will increase \$1,000 a year until it reaches \$15,000 for each plan, a total of \$30,000, in 2006.

After 2006, when the plans will be linked to the Consumer Price Index, the contribution limits will automatically increase.

Raises contribution limits

Another new provision of the law taking effect in January will permit employees to contribute up to 100 percent of their gross compensation into the savings plans. Currently, such contributions are limited to 25 percent of an employee's gross compensation.

Members of the 401(k) and 457 plans who are over age 50 may contribute up to \$12,000 annually beginning Jan. 1, 2002. The limit will increase each year until 2006, topping out at \$16,000 per year – \$32,000 per year for members of both plans.

Funds deposited in either plan as of Jan. 1, 2002, may be rolled over, tax free, into an IRA account if the employee leaves the MTA prior to retirement. The funds also may be left in the plans following separation.

Because contribution limits to the 457 Plan have always lagged behind the 401(k) Plan, employees who are eligible to retire within three years have an opportunity to "catch-up" their 457 Plan contributions.

Contributing to both plans

These employees will be able to contribute up to \$22,000 annually in the 457 Plan over a three-year period, while also contributing \$11,000 to the 401(k) plan – a total of \$33,000.

The limit will increase \$2,000 per year until 2006, when employees in the "catch up" program will be allowed to put \$30,000 in a 457 Plan and \$15,000 in a 401(k) plan, for a total of \$45,000 a year.

Beginning Jan. 1, 2002, distribution of funds placed in a 457 Plan will be just as flexible as those placed in a 401(k) account. For example, members of the 457 Plan can put their funds into a 401(k).

For more information about 401(k) and 457 plans, call Erick Spencer of ICMA at 800-735-7202, Ext. 5941, or log on to the ICMA web site at www.icmarc.org. Spencer is available each Wednesday from 9:30 a.m. until 4 p.m. in the Pension and Benefits Department. The remainder of the month, he rotates among the operating divisions.

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