



Investment Insights

Kevin Kennedy

New retirement plan changes take effect in California

In one of my previous columns, I pointed out that although Federal laws had changed regarding retirement accounts as a result of laws passed in 2001, California had yet to update its laws to conform with the new Federal standards. I am pleased to pass along the news that the Legislature has recently passed laws to ensure California complies with all of the new Federal laws! On April 25th, the California Legislature passed SB 657 and AB 1122. This will have a huge positive impact on the ability of Californians to save for retirement. Although the changes are extensive, I will summarize below the major effects on the most popular retirement savings vehicles.

IRA and ROTH IRA Changes

The law will raise the limits on contributions to an IRA or ROTH IRA each year for the next six years. For tax year 2002, the maximum contribution goes from \$2000 to \$3000. By 2008, the limit will rise to \$5000. For individuals over the age of 50, the law also allows for “catch-up” contributions, which can allow someone over the age of 50 to put even more money into their IRA or ROTH IRA each year. The restrictions on deductibility and income limits for participating in IRA’s and ROTH IRA’s still apply, so be sure to check with your tax professional to ensure that you are eligible to contribute. The higher contribution limits will make it much easier for the average worker to save the money they will need for retirement. Even if you exceed the income limitations and are restricted from contributing to your own IRA, consider establishing an IRA or ROTH IRA for your children or grandchildren who have some earned income during the year.

401(k), 403(b), and 457 Plan Changes

Under the new law, the maximum amount an individual can contribute to an employer-sponsored plan will rise from the current \$10,500 to \$11,000 in 2002. The limit will rise by \$1000 per year, eventually topping out at \$15,000 in 2006. When the employer’s contributions are added in, total contribution limits will rise from \$35,000 to \$40,000. Also, the compensation (income) amount used to calculate contribution amounts will rise from \$170,000 to \$200,000.

These changes will benefit most the highly compensated employees and business owners, who can now defer more money into their retirement plans with easier restrictions.

Business owners who have yet to establish a retirement plan at their company should revisit the idea in light of the recent law changes. These plans are generally one of the few remaining ways to save and invest money on a pre-tax basis, and the new laws make that goal even more attractive.

Portability- Changes To Rolling Over Your Retirement Account

Under the new law, participants in 403(b) and 457 plans will usually have the option of rolling their account into an IRA. Previously, many 403(b) accounts and 457 accounts could not be rolled over when an employee retired or was terminated. This change will allow participants to take control of their retirement account in an individual IRA once they terminate service, and give them more flexibility in managing those assets in a self-directed account.

Portability changes will benefit most retired teachers, firefighters, and other public-sector employees who can now simplify their accounts by rolling their old retirement plan into an IRA. This option has always been available to 401(k) plan participants, but now the law is more equal in the treatment of public and private employees.

In summary, the Economic Growth and Tax Relief Reconciliation Act of 2001 has offered everyone improved opportunities to build and manage their retirement assets. With California now conforming to this Act, the time is now for Californians to take advantage of these changes to secure their retirement!

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