Age 50 Catch-Up Contributions

Overview

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) created new "catch-up" contributions by adding section 414(v) to the Internal Revenue Code. Section 414(v) allows all workers age 50 and older to defer more money to retirement plans that accept elective deferrals. Catch-up contributions may be made to 401(k) plans, SEPs, 403(b) arrangements, Governmental 457 plans, SIMPLE Plans and traditional or Roth IRAs. These contributions are made only as payroll deferrals, **except with regard to IRA contributions.**

On October 23, 2001, the IRS issued proposed regulation 1.414(v)-1. The regulations are effective for plan years beginning after 2001. Until IRS finalizes the regulations, plan sponsors may rely on the proposed regulations. Because catch-up contributions are treated as elective deferrals, a plan generally may account for them in the same manner as other elective deferrals. Separate accounting is not required.

Participants may make catch-up contributions throughout the year, even before hitting a statutory or plan limit. However, contributions are not characterized as catch-up contributions until the end of the year, so some contributions designated as catch-up contributions when initially made may be ultimately characterized as normal elective deferrals. The ability to make deferrals throughout the year, combined with year-end characterization of catch-up contributions, renders moot the question of whether a plan's informal limit on highly compensated employees' deferrals (to ensure satisfying the nondiscrimination test on deferrals) would suffice for allowing catch-up contributions.

Catch-up Contribution Limits - *May not exceed either of the following limits:*

Tax Year	401(k)	SIMPLE 401(k) / IRA
2002	$1,000	$ 500
2003	$2,000	$1,000
2004	$3,000	$1,500
2005	$4,000	$2,000
2006	$5,000	$2,500
2007	$5,000	$2,500
2008	$5,000	$2,500

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