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Insight — May 20, 2002

Many if not most Americans have lost faith in the federal Social Security program. Instead, we look to private retirement plans to assure our future retirements. These programs range from individual retirement accounts (IRAs) that we can buy from any number of banks and brokers, to full-blown pension plans sponsored by our employers.

In this new era of personal responsibility for retirement savings, there is a growing recognition that women are drawing the short straw. Colorado State University professor Vickie Bajtelsmit published a report entitled Women as Retirees that details some of these disparities. (The report can be found at www.womenintheeconomy.org.) Here are a few statistics pulled from the report:

- Women are more likely than men to have interruptions in their employment, for reasons including child rearing and elder care. This obviously leaves them with less time in which to save, but also makes them more likely to forfeit savings by not fulfilling vesting requirements.
- Professions that have historically been populated with women employees, including clerical, financial services and real estate, are less likely to provide employer-sponsored retirement plans.
- Within the 54-62 age group, women average \$25,557 in employer sponsored account-type retirement plans, compared to \$123,625 for men.
- Because women tend to live longer than men, the negative effects of their relative lack of retirement savings are exacerbated.

The good news is that these discouraging statistics are not going entirely unnoticed. On June 7, 2001, a bill called the Economic Growth and Tax Relief Reconciliation Act of 2001 was made into law. Tax professionals refer to this law by its acronym, "EGTRRA." One particularly high-profile part of EGTRRA is the reduction in personal income tax rates, which gave many of us a refund check. But, tax refunds are actually only a small part of EGTRRA. A large part of EGTRRA deals with retirement plan reform, and one subsection of the retirement plan reform section is entitled "Enhancing Fairness for Women." This article will profile four of the provisions included in this subsection.

The first provision in EGTRRA included in the subsection "Enhancing Fairness for Women" is the provision allowing 401(k) plans to permit employees who are age 50 or over to make "catch-up" contributions to the plan. In 2002, catch-up contributions are limited to \$1,000, but increase \$1,000 per year after that until they reach \$5,000 in the year 2006 and after. This amount is a significant enhancement especially when combined with the increase in existing 401(k) elective deferral limits. (This existing limit, which applies to all 401(k) participants,

is raised to \$11,000 in 2002, and increases \$1,000 per year until it reaches \$15,000 in 2006 and after.)

While the idea behind catch-up contributions was to allow employees to make up for time they may have lost by being out of the workforce, employees do not have to demonstrate their lack of retirement savings in order to be eligible. As long as an employee is 50 or over and otherwise eligible to participate in the plan, she (or he-this provision, like all other provisions highlighted in this article, applies to men as well as women) may make catch-up contributions. However, 401(k) plans are not required to permit catch-up contributions, and so some employers may determine that the additional administrative hassle outweighs the potential benefits to employees.

Another provision in EGTRAA aimed at gender equality is the provision lifting and even erasing some of the limits on the amount that may be contributed to an employer-sponsored retirement plan account. These limits, in general, operated to limit retirement savings to a percentage of compensation, such as 25% or 33%. These limits restricted employers from making generous contributions to plans for their employees, and also kept employees who could afford to from saving any substantial amount of their income in tax-deferred plans. While other limits (such as the \$11,000 elective deferral limit discussed above) will continue to apply, for the most part these percentage-of-compensation limits have been erased by EGTRRA.

The third provision included in the gender-fairness section of EGTRRA and highlighted in this article relates to vesting schedules for matching contributions. Matching contributions are the contributions an employer makes for an employee, in an amount that varies depending on the employee's level of contribution. Many employer plans impose a vesting schedule on matching contributions in order to encourage and reward employee longevity. Federal tax laws have long restricted the length of vesting schedules, but EGTRRA shortened the allowable length even further. Now, employees must vest in their matching contributions at least as fast as one of the following methods: (a) 0% for less than three years of service with the employer, then 100% after three years of service; or (b) gradual vesting over six years, with 100% after six years of service.

The final EGTRRA provision profiled in this article relates to hardship withdrawals. Employees are often reluctant to make elective deferrals into a 401(k) plan because federal laws strictly limit their ability to withdraw them later. Generally, the employee won't be able to access the funds until she retires, dies, or leaves employment with the employer. This is a narrow exception for hardship withdrawals, but even then certain strict conditions must be met. One such condition was that the employee could not make any more contributions to the plan for the 12 months following the hardship withdrawal. This was based on the belief that an employee who was forced to take a withdrawal from her retirement savings should be in such financial straits that she could not afford to have any more deducted from her paycheck. In practice, though, this 12-month suspension had the effect of worsening the ultimate financial status of people already in trouble. In recognition of this, EGTRRA permits (but does not require) plans to reduce the 12-month suspension to a 6-month suspension.

This article has only touched on some of the retirement plan issues of particular interest to women. If you are an employee, check with your employer to see if these or other provisions of EGTRAA might help you build a bigger nest egg. If you are an employer, make sure your company has adopted the EGTRRA

provisions that are required, and has at least given due consideration to the options provisions. You might find that the optional provisions, like the catch-up deferrals for employees over age 50, will greatly increase the effectiveness of your retirement plan without much increase in cost to your company.

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