

EFFECT OF BUSH ADMINISTRATION SAVINGS PROPOSALS ON EXISTING SAVINGS VEHICLES

EMPLOYMENT-BASED RETIREMENT SAVINGS VEHICLES	
Section 401(k) Plans	Beginning in 2004, all 401(k) plans would become ERSAs. ERSAs would generally be treated in the same manner as 401(k) plans under the Internal Revenue Code, with certain modifications. Nondiscrimination testing rules would be simplified. Also, plan participants would have the option of contributing on an after-tax basis. Amounts attributable to after-tax contributions would be distributed tax-free at retirement.
Section 403(b) Plans, and Governmental Section 457(b) Plans	Section 403(b) and governmental section 457(b) plans could be converted to ERSAs. Existing section 403(b) and governmental section 457(b) plans could continue indefinitely, but could not accept new contributions after 2003. Thus, employer sponsors of these plans could either convert to ERSAs or establish ERSAs on a prospective basis and maintain their existing 403(b) or 457(b) plans on a frozen basis. Special nondiscrimination rules would apply for governments and charities.
Nongovernmental Section 457(b) Plans	Not affected.
SIMPLE Plans and SARSEPs	SIMPLE plans and SARSEPs could be converted to ERSAs. Treatment of existing balances in these IRA funded vehicles is presumably similar to the traditional IRA rules described below (although that is not clear from materials released to date).
Other Defined Contribution Plans	ERSAs and all other defined contribution plans (i.e., those not involving employee elective deferrals or matching contributions) would be subject to revised coverage rules, could no longer use permitted disparity or cross-testing to satisfy nondiscrimination tests, and would no longer be subject to the top-heavy rules. These new rules would go into effect in 2004.
Defined Benefit Plans	Not affected.
INDIVIDUAL RETIREMENT SAVINGS VEHICLES	
Traditional Deductible IRAs (and nondeductible IRAs)	Traditional IRAs would generally be eliminated and replaced by new Retirement Savings Accounts (RSAs). Existing balances in traditional IRAs could be left in place, but no new contributions could be made (other than pre-tax rollover contributions from employment-based plans). Traditional IRAs could be converted into RSAs, but, upon conversion, income tax must be paid on all amounts converted (other than amounts already taxed). For conversions before 2004, income could be spread over four years. Unlike under current law, there would be no income limits on the ability to convert. RSAs are proposed to be effective in 2003 and new IRA contributions could not be made after 2003. [It is not clear if an individual could make both an RSA and IRA contribution in 2003.]
Roth IRAs	Existing Roth IRAs would be unaffected, except that they would become (and be re-named) RSAs.
OTHER SAVINGS VEHICLES	
529 Plans (Qualified Tuition Programs) and Coverdell Education Savings Accounts (ESAs) (formerly called "Education IRAs")	Qualified Tuition Programs under section 529 and ESAs would continue as today, although the availability of the Lifetime Savings Accounts (LSAs) proposed by the President may well reduce the relative attractiveness of 529 plans and ESAs for many. Individuals would have a one-time opportunity to convert balances from section 529 plans or ESAs, prior to January 1, 2004. There would be no tax or penalty due on conversion.
Archer Medical Savings Accounts (MSAs)	MSAs would continue as today (although other elements of the President's FY 2004 budget propose changes in the underlying MSA rules). Individuals would have a one-time opportunity to convert MSA balances, prior to January 1, 2004. All amounts converted from MSAs into LSAs would be fully taxable in the year of the conversion.