

Roth 401(k): EGTRRA added section 402A to the Internal Revenue Code, which provides that a participant who is making elective deferrals to a 401(k) plan, may designate all or some of those contributions as "Roth" contributions. Roth contributions are included in the participant's income in the year they are made. When distributed the Roth contributions plus the interest earned on it are excluded from the participant's income. These differ from traditional 401(k) contributions in that those are tax-deferred when made and taxable when withdrawn.

401(k) sponsors received a mailing from us in the 4th quarter of 2005 that outlined this topic and more information is provided on our website, under Legislative Updates. Most plan sponsors and recordkeepers have opted to not provide Roth 401(k) contributions as of the beginning of next year, as the IRS has not yet provided guidance on all of the issues raised by practitioners.

National surveys have confirmed that few are adding this feature to their plans this coming January. Among the reasons cited were additional administrative burden, additional participant education required, lack of participant demand, concerns about EGTRRA sunset (see buzzwords on this page) and insufficient regulatory clarification.

We will watch for the final guidance and notify you when we feel it is appropriate to offer Roth 401(k) contributions. For more on how Roth contributions got their name, see the piece on William Roth later in this newsletter.



Not your father's pension plan: In the late 1970s, more than 60% of U.S. full time workers were covered by a defined benefit pension plan. Such plans typically provide for a monthly pension check for lifetime. Today, the percentage of U.S. full time workers covered by these plans is only slightly more than 10% as employers are unable or unwilling to bear the enormous expense involved with providing these plans.

We are pleased to announce the hiring of a new Plan Administrator, Chris Morman. Chris joined PPP during 2005. Chris has a Bachelors Degree from the University of South Carolina in Operations Research/Statistics with a Minor in Mathematics.

Hardship withdrawals: Plan sponsors with hardship withdrawal provisions in their plans will be glad to know that the events that qualify for the safe harbor exemption have recently been expanded. Until now, the qualifying events were 1) medical expenses incurred by self, spouse, or dependents; 2) purchase (excluding mortgage payments) of principal residence; 3) payment of tuition for the next semester or quarter of post-secondary education for self, spouse, children or dependents; 4) the need to prevent eviction from or mortgage foreclosure on personal residence.

The new regulations in 2005 add 2 new safe harbors: funeral/burial expenses and expenses to repair damage to primary residence that would qualify for the casualty deduction.

Additional restrictions and circumstances may affect an active participant's ability to take a hardship withdrawal, so please be sure to contact us for an application.



Pension buzzwords

Sunset provision – provides that a provision of the law is automatically repealed on a specific date, unless the General Assembly reenacts the law. This term is frequently used to describe the retirement plan provisions of the EGTRRA amendments, which are set to expire, or sunset, in 2010. By using an expiration date on revenue-negative legislation, such as the expanded plan limits in EGTRRA, the effect on the federal budget can be minimized.

Serial loan defaults – a participant repeatedly borrows from his/her retirement account, defaults on the loan(s) and takes subsequent loan(s). The IRS has taken a dim view of this practice. We recommend that a previous loan default be grounds for subsequent loan denial.

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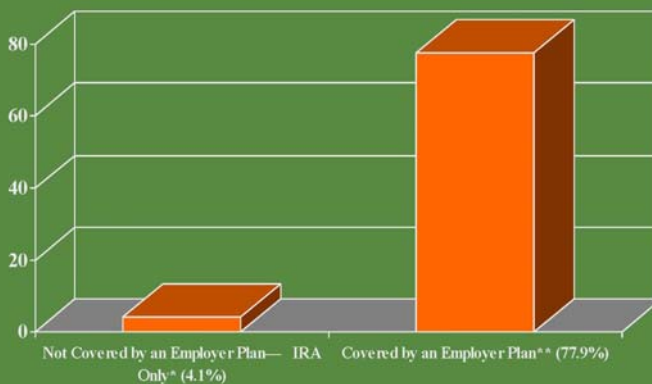
What's the only state to border both Canada and the Mason-Dixon Line?

That would be Pennsylvania, where Lake Erie in the northwest borders Canada and the state line with Maryland in the south is the North/South delineator. Though the Mason-Dixon line is most commonly associated with the division between the northern and southern states during the 1800s and the American Civil War era, the line actually originated in the mid-1700s to settle a property dispute, whereby British courts deemed that the boundary between southern Pennsylvania and northern Maryland should lie 15 miles south of Philadelphia.

Effectiveness of Employer Plans



Participation Rates by Moderate Income (\$30,000–\$50,000) Workers Not Covered by a Workplace Retirement Plan Versus Covered by a Plan



Source: Employee Benefits Research Institute (2005).



William Victor "Bill" Roth, Jr. (July 22, 1921 – December 13, 2003) was a U.S. Representative and five-term Senator from Delaware. A member of the Republican Party, he served in the House from 1967 to 1970 and in the Senate from 1971 to 2001.

Born in Montana, Roth graduated from the University of Oregon in 1943 and Harvard Business School in 1947. Roth moved to Delaware in 1954 and made it his adopted state.

Roth is best remembered as a strong advocate of tax cuts, and he co-authored the Kemp-Roth Tax Cuts in 1981 with Jack Kemp. Roth was also the legislative sponsor of the individual retirement account plan that bears his name, the Roth IRA, and was known as a fiscal conservative.

FEDERAL DOLLAR LIMITS

	2002	2003	2004	2005	2006
401(k) Elective Deferrals	\$ 11,000	\$ 12,000	\$ 13,000	\$ 14,000	\$ 15,000
Catch-up Contributions	1,000	2,000	3,000	4,000	5,000
Defined Benefit Plans	160,000	160,000	165,000	170,000	175,000
Defined Contribution Plans	40,000	40,000	41,000	42,000	44,000
Annual Compensation Limit	200,000	200,000	205,000	210,000	220,000
Highly Compensated Employee	90,000	90,000	90,000	95,000	100,000
SIMPLE Retirement Accounts	7,000	8,000	9,000	10,000	10,000
SEP Coverage	450	450	450	450	450
SEP Compensation	200,000	200,000	205,000	210,000	220,000
Social Security Wage Base	84,900	87,000	87,900	90,000	94,200

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