

Pension Protection Act of 2006

One of the most sweeping reforms of the retirement plan universe was signed into law by President Bush in August of 2006, promising to bolster pension plan funding and increase workers' retirement savings.

The 907-page Pension Protection Act of 2006 comes as the number of people covered by a defined-benefit pension has steadily declined and awareness has grown about the lack of adequate savings among Americans.

On the defined-benefit plan front, the new law changes pension accounting rules, how much companies must contribute to their plans and how much they must pay in premiums to the Pension Benefit Guaranty Corp, which insures pension plans. Such changes are likely to continue the decline in popularity of these plans.

A majority of workers 45 and older have less than \$50,000 in savings, according to a survey by the Employee Benefit Research Institute (EBRI). What's more, almost 40 percent of workers over 40 don't participate in a 401(k) when they are eligible. The new legislation encourages companies to automatically enroll 401(k)-eligible employees and to automatically increase worker contributions every year. It also allows the plan provider chosen by the employer to offer investment advice to workers.

In addition, the bill makes permanent what until now have been temporary increases in 401(k) and IRA contribution levels and makes permanent the saver's tax credit to encourage low-income workers to save for retirement.

Other highlights:

- ◆ Several changes to the way refunds of failed 401(k) test contributions are calculated and taxed, including elimination of gap period income and retroactive inclusion in income, both beginning in 2008.
- ◆ Non-spouse beneficiaries will be permitted to roll over distributions made at the death of the participant to an inherited IRA, effective for distributions made after 2006.
- ◆ Terminating defined contributions plans will be permitted to transfer the accounts of missing participants to the PBGC. Amounts transferred in this way will be distributed in accordance with the PBGC missing participant program that previously only applied to defined benefit plans. However, the expanded program will only be effective after regulations are issued.
- ◆ Contributions to all defined contributions plans would be subject to the same vesting schedules that presently apply to matching contributions (i.e., 6-year graded or 3-year cliff). This change is generally effective for contributions made for plan years beginning after 2006.
- ◆ New required benefit statements (quarterly participant-directed plans; annually for other defined contribution plans);
- ◆ Expanded rollover options, including the option to roll directly from a pre-tax plan account to a Roth IRA (subject to existing rules for conversion of a traditional IRA to a Roth IRA);
- ◆ The DOL will electronically post 5500s on their Web site beginning in 2008. Additionally, employers will be required to post 5500 on their own Intranet sites available for employees. For more proposed changes to the 5500, see page 2 of this publication.

[Brenda Jewart is our newest PPP member. Brenda received her Accounting Diploma from Professional Career Development Institute. She resides with her boyfriend Gary in East Pennsboro Twp and enjoys reading murder mysteries & riding the Harley.](#)

Our Commitment To Privacy

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Roth 401(k) Reminder:

This time last year we were taking a proceed-with-caution approach to this new feature. Over the past year, the various payroll providers and 401(k) Recordkeepers have "ironed out the kinks" and are now almost universally ready to offer this option.

Under the Roth IRA, contributions of up to \$4,000 annually can be made, subject to income limitations. In the Roth 401(k), you can substitute pre-tax with post-tax wage-based contributions and contribute up to \$20,500 in 2007 as Roth contributions, assuming catch-up eligible (see pension buzzwords, page 2). These contributions and subsequent earnings are tax-free (vs. tax deferred) upon withdrawal, subject to certain limitations. For more details, please see www.papensionplanners.com/legupdates/roth401k/.

If you would like to pursue adding this feature to your retirement plan, please contact us for the particulars. This can generally be done for any 401(k) plan on a recordkeeping platform at minimal administrative expense.

The poinsettia is a favorite decorative plant of the holiday season. Joel Poinsett, the first U.S. minister to Mexico, introduced this *native-Mexican* plant to the United States in the mid-1800's.

Though its true flowers are inconspicuous, the brightly colored leaves (bracts) give the plant its popularity. The true flowers are the small, greenish 'buttons' at the ends of the stems.

Today's poinsettias have larger flower bracts, are available in new colors and have superior keeping qualities. When choosing a poinsettia plant, look for one with leaves down to the bottom of the stems. The true flowers – the green parts in the center of the bracts -- should be in tight bud. Be sure to have the plant wrapped before you take it outside to your car. Plants exposed to rapid temperature changes drop their leaves, especially in cold weather.

Placement and Care in the home - Poinsettias need bright light to keep them looking good. Night temperatures of 60-65F and day temperatures of 70-75F are ideal. Keep the plant away from any drafts, windows, doors, or heating vents. Water the plant when the top of the soil feels dry to the touch.

Are Poinsettias Poisonous? Surprisingly, this myth is perpetuated every year. Reports of poinsettia toxicity are rumors based on outdated information that is still occasionally being published. Additionally, the poinsettia is not toxic to pets.



Pension Buzzwords

Analysis Paralysis: when there are too many enrollment choices, participants may become overwhelmed and make no choice at all. Information overload. Sponsors are encouraged to limit the number of enrollment options to a reasonable amount while still providing for diversity.

Catch-up eligible: describes an employee who has or will have attained age 50 by the end of a calendar year. Such person qualifies for a \$5,000 addition (for 2007) to the annual federal limitation (\$15,500 for 2007). Also applies to federal IRA contribution limits.

On July 21, 2006, the Department of Labor (DOL) Employee Benefits Security Administration (EBSA) released guidance regarding **the future of Form 5500**.

Final regulations requiring electronic filing of form 5500 beginning in 2008: E-filing has been available for some time but the utilization has been underwhelming, largely in part to cumbersome procedures and user restrictions. More regulations concerning the new procedure will be released at a later date.

Proposed revisions to the form 5500 format, content and instructions: The DOL is developing a simplified short form for small plans - plans with less than 100 participants. For most qualifying users, the form is expected to be comprised of 2 pages and no accompanying schedules. In addition, large plan filers (> 100 participants) should expect to see minor changes to Schedules A, E, H, R and SSA.

FEDERAL DOLLAR LIMITS

	2003	2004	2005	2006	2007
401(k) Elective Deferrals	\$ 12,000	\$ 13,000	\$ 14,000	\$15,000	\$15,500
Catch-up Contributions	2,000	3,000	4,000	5,000	5,000
Defined Benefit Plans	160,000	165,000	170,000	175,000	180,000
Defined Contribution Plans	40,000	41,000	42,000	44,000	45,000
Annual Compensation Limit	200,000	205,000	210,000	220,000	225,000
Highly Compensated Employee	90,000	90,000	95,000	100,000	100,000
SIMPLE Retirement Accounts	8,000	9,000	10,000	10,000	10,500
SEP Coverage	450	450	450	450	500
SEP Compensation	200,000	205,000	210,000	220,000	225,000
Social Security Wage Base	87,000	87,900	90,000	94,200	97,500

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