

The Pension Protection Act of 2006



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The House of Representatives and the Senate have both passed the Pension Protection Act of 2006 (H.R. 4, Public Law 109-280), a massive tax law aimed at strengthening pension funds and providing a multitude of other tax changes. The President signed the bill into law on August 17, 2006.

Permanent Increases in 401(k) and IRA Contributions

Contribution limits to IRAs, 401(k)s and other workplace savings plans were increased in 2001 but were due to expire in 2010. **The Pension Protection Act of 2006 makes these increases permanent.** The contribution limits due to expire in 2010 are now permanent. Annual IRA contribution limits are scheduled to further increase 2008. What's more, most of these limits may go up as cost of living increases. **Taking advantage of these permanent increases could make it easier for you to reach your retirement goals in less time.**

Retirement Contribution Limits*		2006	Things to Consider
Traditional/Roth IRA**		\$4,000	
Traditional/Roth IRA catch-up		\$1,000	
SIMPLE IRA (Small Business)**		\$10,000	
401(k) contributions**		\$15,000	
401(k) catch-up**		\$5,000	

NOW PERMANENT WITH FUTURE INCREASES

*Note that in certain cases, other requirements will apply in order to be eligible to contribute up to the above limits.
**Subject to annual cost-of-living adjustments.

Improvements to 401(k)s and Pension Plans

The Pension Protection Act of 2006 also includes a number of changes to 401(k)s, 403(b)s, and pension plans. **These changes are intended to make it easier for you to save for retirement.** They're also intended to make company pensions more secure. Note that these changes have varying effective dates under the Act. The changes that may matter most to you are:

- The Act includes significant protections to help make company pensions more secure.
- More employer retirement plans may choose to automatically enroll participants, increase contributions over time, and utilize default investments to help you stay better diversified (with options to opt out of these defaults).
- The rules permitting contributions to Roth 401(k)s are now permanent. As a result, your company may be more likely to add a Roth 401(k) feature to a workplace savings plan.

Enhancements to IRAs

The Pension Protection Act of 2006 makes a number of enhancements to Roth and Traditional IRAs. **We've highlighted some of the key ones below:**

- Starting in 2007, non-spouse beneficiaries may now roll over inherited workplace savings plan assets to an inherited IRA.
- If you're 70½ or older, you can contribute money from an IRA right to a tax-exempt charity. For you, if these qualified charitable distributions are made in 2006 or 2007, they are federal income tax free.
- Beginning in 2008, if you qualify, you'll be able to directly roll over eligible 401(k) assets into a Roth IRA. Currently, you have to move it to a Traditional IRA first.
- Active-duty military reservists may now make early withdrawals from their IRAs without paying a penalty if certain requirements are met.
- Starting in 2007, you may directly deposit all or a portion of your federal tax refund into an IRA¹.
- In addition to The Pension Protection Act of 2006, other or additional legislation taking effect in 2010 will make it possible for you to convert eligible workplace savings plans or traditional IRA assets into a Roth IRA regardless of how much money you make.

1. Subject to applicable contribution limits

Please feel free to contact me. I would be happy to answer any questions regarding the worth or effectiveness of your current insurance and retirement plans.

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