

# Pension Protection Act – What it Means to You

The Pension Protection Act of 2006 was signed by President Bush on August 17, 2006. The legislation included changes to promote savings and protect 401(k) and pension plan participants, as well as individual investors.

Similar to the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which passed in 2001, the legislation included changes in several areas, including IRAs, 529 college savings plans, and 401(k) plans. Subject to the applicable effective date of a particular provision, the signing made the following key provisions available.

Please note: the following information is just an initial summary of the legislation. It should not be relied on, as many of the Act's provisions are subject to further regulatory guidance and interpretation. This summary is provided for informational purposes only and is not intended as tax or legal advice.

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## Permanent Increases to 401ks and IRAs

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.**

- To Consider** ▶ Maximize your 401k or IRA contributions  
Catch up contributions to your 401k or IRA if you are 50 or older

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## Permanent Tax Advantages for 529 Plans

Currently, distributions from 529 College Savings Plans are federal income tax free when used for qualified higher education expenses. This benefit was set to expire in 2010. The Pension Protection Act of 2006 makes it permanent. **THIS HELPS MAKE 529 PLANS ONE OF THE BEST WAYS TO SAVE FOR COLLEGE.**

- To Consider** ▶ Check out the benefits of a 529 plan  
Make contributions for a child or grandchild  
Maximize your 529 contributions and consider your State income tax benefits



# Pension Protection Act – What it Means to You continued

## Enhancements to IRAs

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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 IRA<sup>1</sup>.
- 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.

<sup>1</sup>Subject to applicable contribution limits

**To Consider** ► Consolidate your old 401k into a Roth IRA  
Maximize Roth IRA contributions

## Improvements to 401(k)s and Pension Plans

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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.

**To Consider** ► Move your old 401k to an IRA  
Maximize your 401k contributions

