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Designing Your Financial Future™

Bush Signs Pension Protection Act of 2006

On August 17, 2006, President Bush signed the Pension Protection Act (PPA) of 2006. The main purpose of the 900-plus page bill is to strengthen traditional pension plans.

The PPA also extends, and, in some cases, improves, over 20 retirement tax-savings benefits. In addition, the bill creates a whole new set of rules on charitable giving for businesses and individuals.

NEW AND IMPROVED RETIREMENT SAVINGS INCENTIVES

The PPA adds new retirement savings incentives as well as makes several other provisions permanent.

Permanent Provisions

The following is a list of some of the more significant provisions that were scheduled to sunset at the end of 2010 under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) that are now permanent:

- Higher dollar amount for IRA contributions: \$4,000 starting in 2006, \$5,000 in 2008, inflation adjusted thereafter
- Catch-up contributions for workers age 50+: \$1,000 for IRA's, \$2,500 for SIMPLE plans, and \$5,000 for 401(k) plans
- Higher dollar limits on defined contribution plan contributions: \$44,000

- Higher dollar limits on 401(k) plan contributions: \$15,000
- Higher dollar limits on SIMPLE plan contributions: \$10,000
- Increases in the annual benefit limit under a defined benefit plan: \$175,000
- Faster vesting of employer matching contributions
- Roth 401(k)s and 403(b)s

New Incentives for Non-Spouse Beneficiaries of Retirement Plans

The new law adds the following new incentives for non-spouse beneficiaries of retirement plans:

Plan Rollovers

Under previous law, you were allowed to roll over your deceased spouse's interest in a qualified retirement plan into an IRA without being taxed on the rollover. The new law extends this to nonspouse beneficiaries.

401(k) Plan Hardship Withdrawals

The new law instructs the Treasury to issue rules that allow 401(k) plan withdrawals for hardships for any beneficiary under the 401(k) plan, not just spouses as under previous law.

Direct Plan-to-Roth IRA Rollovers

Under previous law, if you

wanted to roll over your qualified retirement plan assets to a Roth IRA, you needed to roll over the amount to a traditional IRA, then convert your traditional IRA to a Roth IRA.

Beginning after 2007, the new law allows for direct rollovers from qualified retirement plans to a Roth IRA and will treat it as a Roth conversion if all other conversion qualifications are met.

CHARITABLE DONATIONS

Tax-Free Distributions From IRAs

Under the new law, taxpayers 70-1/2 years and older will be able to make tax-free distributions up to \$100,000 per year from IRAs to qualified charities through 2007.

Cash Donations

Beginning in 2006, no deduction is allowed for any contribution of cash or check without a bank record or written communication from the charity documenting the amount of the contribution, the date the contribution was made, and the name of the charity.

Clothing and Household Goods

Under the new law, no deduction is allowed for used clothing and household items unless the items are in "good" condition.