

The Pension Protection Act of 2006

Signed into law on August 17, 2006, the [Pension Protection Act of 2006 \(PPA\)](#) provides broad changes for the pension landscape. Thus, expanding provisions to help workers who save for retirement through Individual Retirement Accounts (IRA) and Defined Contribution Plans such as 401(k)s.

PPA introduces some new and improved rules. It also made permanent numerous benefits introduced by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) that had been scheduled to take effect after 2010. This summary provides an overview of some of the provisions that may be important to you.

CALCULATING LUMP SUM PENSIONS

The major change that has occurred affecting the Lump Sum distribution is the mortality table and interest rate used to calculate lump sums. A new three-tier corporate bond rate will be blended with the GATT rate over the next five years. There will be a transition period as shown below over the next five years. The mortality table used in this calculation will also change. As of now the new corporate bond rate and the new mortality rate that will go into effect have not been published. Please keep in mind as interest rates increase lump sums tend to go down.

Interest Rate Changes

- There will be a 3-tier corporate bond yield encompassing short, intermediate, and long-term payouts that will be phased in over five years
- The IRS will prescribe gender neutral mortality table.

Transition Period

2008 = 80% old + 20% new
2009 = 60% old + 40% new
2010 = 40% old + 60% new
2011 = 20% old + 80% new
2012 = 0% old + 100% new

Special Note: Higher rates negatively impact your pension.

Effective January 1, 2008.

EGTRRA PROVISIONS MADE PERMANENT

- Increased maximum annual IRA and qualified plan contributions:

IRAs:

2005 – 2007	\$4,000
2008	\$5,000
2009 & Beyond	Indexed for inflation

401(k) and other qualified plans:

2006	\$15,000
2007	Indexed for inflation

- Larger catch-up contribution limits as of 2006 for those age 50 or older:

401(k)s	\$5,000
IRAs	\$1,000
Simple IRAs	\$2,500

- Increased portability between 401(k), 457 and 403(b) Plans.
- A tax credit up to \$1,000 to encourage low- to moderate-income workers to save for retirement. Future increases in tax credit will be indexed for inflation.
- Federal income tax-free distributions from 529 Plans for qualified higher education expenses.
- Availability of Roth 401(k) and Roth 403(b) Plans that allow participants to make after-tax contributions and receive tax-free withdrawals.

IRA PROVISIONS

Charitable Donations

- Allows IRA owners who are at least age 70 ½ to donate up to \$100,000 per year to qualified charities without tax consequence.
- The distributions must be made directly to the charitable organization from the IRA Trustee.

Effective for 2006 and 2007 tax years only.

ROLLOVERS TO ROTH IRAs

- Allows direct rollovers from qualified retirement plans, tax-sheltered annuities or governmental 457B plans to Roth IRAs.