

Pension Protection Act of 2006:

On August 17th, 2006, President Bush signed the Pension Protection Act of 2006 which is being hailed as the most comprehensive pension reform to be passed in decades. Many of the provisions of the law pertain to defined benefit plans but there are also provisions that affect defined contribution plans. The major changes to defined contribution plans are listed below.

EGTRRA Permanency – The provisions of the Economic Growth & Tax Relief Reconciliation Act (EGTRRA) such as increased deferral limits, catch-up contributions for participants over age 50 and the Roth 401(k) feature are made permanent. These provisions were set to expire after 2010 without the passage of this law.

Automatic Enrollment Safe Harbor – Effective for plan years beginning in 2008. A plan meeting a qualified automatic contribution arrangement would be eligible for safe harbor treatment under the ADP/ACP tests and would be deemed to meet top heavy requirements. The qualified arrangement requires:

- The automatic enrollment percentage must initially be between 3% and 10% but no less than 4% in the second year, 5% in the third year, and 6% in any subsequent year.
- A match of at least 100% on the first 1% deferred and 50% on the next 5% deferred **or** a 3% profit sharing contribution would have to be provided and must be 100% vested after 2 years.

Excess Contributions – Effective for plan years beginning in 2008. The return of contributions that occur in the 2 ½ month correction period would be taxed in the year of distribution.

Direct Rollovers into Roth IRAs – Effective in 2008. Plan distributions would be eligible for direct rollover to Roth IRAs. The taxable portion of the rollover amount would be taxed at the time of the rollover.

Non-Spouse Rollovers – Effective for distributions made in 2007. A non-spouse beneficiary would be permitted to roll plan distributions into an IRA.

Accelerated Vesting – Effective for plan years beginning in 2007. Top heavy vesting schedules would be required on all contribution sources (EGTRRA only required the top heavy vesting schedule on matching contributions).

