



## New Pension Rules

### Q: What's in the new Pension Protection Act?

**A:** The new 900-page "Pension Protection Act." (PPA) is a very complex law, but here are just a few of the ways it could affect you:

- **IRA Contribution Limits:** A 2001 law increased the annual contribution limits a worker could make into their Individual Retirement Accounts (IRA) and qualified pension plans, and allowed people age 50 and over to make additional "catch-up" contributions. These reforms were scheduled to expire in 2010, but the PPA would make them permanent. IRA contributions will be \$4,000 in 2006 and 2007, \$5,000 in 2008, and adjusted for inflation after 2008.
- **Better IRA plans:** Many workers have "defined contribution" retirement plans, in which an employee is allowed to set aside a certain amount or percentage of money each year for retirement. Under the new PPA, an employer can automatically enroll workers into a defined contribution plan--but only if their plan meets certain rules: (1) the employee contributions must equal 3% of pay in the first year, increasing annually by 1% until reaching 6% of pay (up to a maximum of 10%); (2) employer matching contributions must be at least 50% , or, employers can contribute 2% of pay on behalf of all employees, regardless of whether employee contributions are made; and (3) employer contributions must fully vest after two years.
- **Tax Credits Kept:** Certain workers who make contributions to an IRA get an income tax credit for the first \$2,000 of annual contributions. The credit is 50% of the contribution for people with incomes of \$15,000 or less (\$30,000 or less for couples). The credit phases down to \$0 for people with incomes of \$25,000 or less (\$50,000 or less for couples). This credit would have expired in 2007.
- **Use It Lose It:** The PPA allows workers who set up a Flexible Spending Account with their employer to use these funds to pay for unreimbursed medical expenses, like deductibles and copays, but instead of giving back to the employer any unused FSA money at the end of the year, the employee can now rollover \$500 to the next year.
- **Domestic Partners:** The new law allows domestic partners who are not married to roll over assets inherited from a retirement plan into an IRA. The beneficiary will avoid tax on the rollover, and will be taxed only when the assets are withdrawn. This tax break used to be only for spouses.
- **Stricter Charitable Contributions:** Under the PPA, taxpayers must keep records of all cash donations, and keep a receipt from the charity, a canceled check, or credit card statement in case they are audited.. Donations like cars, clothing, and household goods, must be in good condition. The PPA allows taxpayers to donate up to \$10,000 tax-free to charities directly from their IRA. The distributions will be tax-free and avoid the penalty on early withdrawals.