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Date: January 18, 2007
To: College for Financial Planning Retirement Planning Students
From: Professor Jim Stone
Subject: Summary of PPA 2006 Changes for 2007

Numerous students have requested an overview of the Pension Protection Act of 2006. In an effort to meet this request, the following information is provided.

The Pension Protection Act of 2006 was signed by President Bush on August 17, 2006. In the 900-page act, Congress addresses several important problems in retirement plans. The changes brought by the act are phased in over several years. **The changes effective in 2007 are summarized below.**

The PPA does several important things:

1. EGTRRA changes are made permanent by the act. This change was vital to the continuing growth of retirement assets brought on by more generous contribution allowances and tax credits. Important changes that now will not sunset on 2011 include the following:
   a. The age 50 catch-up for IRA, SIMPLE, 401(k), 457, and 403(b) plans
   b. Increase in deferral limits for 401(k), 457, and 403(b) plans
   c. Increased compensation limit
   d. Increased 415 limits
   e. Accelerated vesting for matching contributions (top-heavy)
   f. Defining compensation to include deferrals
   g. Increasing the maximum profit sharing contribution to 25%
2. Deferred compensation plans are restricted. These restrictions are added to Code Section 409A and affect the ability of those in the top-paid group to set aside assets for deferred compensation when the company is in bankruptcy, when the defined benefit plan is "at risk," or a defined benefit plan is terminated. The penalties under 409A will apply to violations.
3. In 2007, the deduction limit for combined defined benefit and defined contribution plans does not apply provided the contribution to the defined contribution plan does not exceed 6%.
4. The act provides a new prohibited transaction exemption for providing investment advice after 2006. The advice must be provided through an "eligible investment advice arrangement" to participants and beneficiaries of qualified defined contribution plans who direct the investment of their accounts. An eligible investment advice arrangement must provide that any fees, commissions, or other compensation received by the fiduciary adviser for investment advice or for a transaction resulting from that advice do not vary depending on the investment option chosen. Alternatively, the arrangement must use a computer model to formulate the investment advice.
5. The act validates and defines the conversion of defined benefit plans to cash balance plans (also called hybrid plans), and actually validates the cash balance plan by redefining discrimination.

a. Effective June 29, 2005, a new single anti-age discrimination rule is used for all defined benefit plans. Under this rule standardized retirement early benefits may be disregarded and the accrued benefit may be expressed as a hypothetical account.
b. Conversions after June 29, 2005, must provide participants with an accrued benefit no less than the accrued benefit under the old formula plus an accrued benefit based on service after the conversion and under the new formula.

6. Plans may be amended to allow distributions to working participants at age 62.

7. Distributions of after-tax contributions and earnings from a Q-plan may be rolled to a 403(b) or defined benefit plan provided the receiving plan accounts for the rollover separately.

8. A designated non-spouse beneficiary may, by direct transfer, roll the death benefit payment from a participant in a Q-plan, 403(b), or governmental 457 to an IRA if the following are true:
   a. Distribution must be a direct transfer to the IRA.
   b. No rollovers are permitted from the receiving IRA.
   c. The IRA is subject to subject to RMD rules.
   d. The receiving IRA is established for the direct transfer.

9. Excess assets in a defined benefit plan may be transferred to a fund for funding retirement health accounts.

10. New Investment Diversification Requirements. Defined contribution plans come under new diversification requirements with respect to employer stock. Accounts with participants' contributions or deferrals invested in employer securities must be subject to the participant's election to divest employer securities from the account and invest the proceeds in other alternatives.

    a. A participant with at least three years of service or the beneficiary of that participant must be allowed to divest from the account employer securities attributable to employer contributions.

    b. This divestment is phased in over three years for employer securities purchased or contributed to the plan prior to January 1, 2007, at 33% per year. Employer securities acquired after January 1, 2007, may be 100% divested. Divestments must be available at least quarterly and may be at the appointed times during the plan year determined by the plan document. Participants must be notified at least 30 days prior to the first day of their eligibility to divest.

    c. At least three investment choices must be offered as alternative investments for the divested securities. These choices must be diversified and be different as to risk and return profiles.

    d. Notice must be given to the participant no later than 30 days prior to the first day the participant is eligible to divest employer securities.

11. Defined contribution plans must now vest the participant's account over no more than three year cliff or six-year graded vesting schedules.

12. A QDRO cannot be treated as a failed QDRO because it is issued after or revises another QDRO, or because of the time it is issued.