PENSION PROTECTION ACT OF 2006

In August of 2006, the Pension Protection Act of 2006 was signed into law. Many of its provisions pertain only to Defined Benefit plans. However, a few relate to 401(k) plans as well. Below is a summary of these changes. Feel free to call me if you would like additional information on these new laws.

EFFECTIVE FOR PLAN YEARS BEGINNING IN 2007 OR LATER:

* Non-spouse beneficiaries are permitted to roll over benefits to an IRA.

EFFECTIVE FOR PLAN YEARS BEGINNING IN 2008 OR LATER:

* Corrective refunds due to the failure of the 401(k) test are taxable in the year of distribution rather than the year of deposit.

* Plans with an Automatic Enrollment feature have 6 months after year end to make corrective refunds rather than the current rule of 2½ months.

* NEW Combined Automatic Enrollment / Safe Harbor 401(k) Plans:
  Within certain parameters, plans with an Automatic Enrollment feature may provide a reduced Safe Harbor match and have a 2-year vesting schedule rather than immediate vesting.

  The minimum match rate is 100% of the first 1% of pay deferred plus 50% of the next 5% of pay deferred, so that the maximum match is 3.5% of pay.

  For Safe Harbor plans already using the 3%-of-pay QNEC option, this contribution rate is not changed.

  If the initial Automatic Enrollment rate is less than 6% of pay, then each participant's rate must be increased by 1% each year until it reaches 6%.

  If a participant is automatically enrolled and decides s/he doesn't want to participate, then s/he has 90 days to request a penalty-free refund.