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Saving for retirement just got easier

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Do you remember what you were doing on August 17, 2006?

If you are like me I don't remember either.

However, what I do know is Congress passed a bill called The Pension Protection Act of 2006 to help strengthen protections for our pensions.

You may be wondering how this bill affects you. Anyone reading this article probably has a friend or knows a friend of a friend who has broken a promise. Therefore, you can identify with the feeling of disappointment when a person does not follow through with an agreement he, or she, has with you.

Unfortunately, I cannot assure you this bill will protect you from your friend — unless you work for him or her. However, I can say it will help ensure that your employer will practice what they preach in regard to your private pension.

Likewise, aside from many other benefits, The Pension Protection Act helps ensure an employer keeps its promise in regard to private pension plans, so the employee gets the money promised for retirement.

Most private companies are meeting their obligations in regard to funding their private pensions. However, some companies get themselves in trouble financially. Worst-case scenario, financial devastation can lead businesses into bankruptcy, which can have an adverse affect on what employees' receive from their pension plan.

The federal government has put an insurance system in place for employers offering private pensions. The businesses pay the insurance premiums. This helps protect employees as well as taxpayers.

A failing business not able to fund its pension plans affects the entire system. If there is not enough money in our system to cover these expenses, it could fall on the taxpayers. So, this new legislation has added new regulations to help employers manage their pensions.

If you already save money in retirement plans such as IRAs or 401(k)s, The Pension Protection Act has new provisions, which help make it easier to contribute to these plans.

In summary the following are some of the provisions:

• Contribution limits increased for the Traditional and Roth IRAs. For the 2006 and 2007 tax years. The contribution limit is now up to $4,000. Also, the contribution limit into the employer's plan is up to $15,500 to 401(k) or 403(b) accounts.

• If you qualify for a catch-up contribution, and are age 50, or older, you can contribute even more to your Traditional and Roth IRAs — $1,000 for 2006 and 2007. For some types of employer-sponsored retirement plans, including 401(k) and 403(b) plans, you can also make catch-up contributions up to $5,000 for 2006.

• If you take a distribution from a plan account after Dec. 31, you can rollover directly into a Roth IRA rather than having to rollover into a Traditional IRA first. Pre-tax contributions and any earnings will be treated as taxable income in the year the account is rolled over.

• If someone other than your spouse named you as the beneficiary of a qualified retirement plan account, you may be able to receive more favorable tax treatment by rolling over to an inherited IRA. This may enable you to stretch distributions from the account over your life expectancy. If your money can continue to grow tax-deferred, you can avoid the taxes that might be due on a lump sum distribution.

• If you have earned too much to be eligible to deduct contributions to a Traditional IRA or contribute to a Roth IRA in previous years, the Pension Protection Act increases the Adjusted Gross Income limits that determine the deductibility of Traditional IRAs and eligibility for contributing to Roth IRAs, in $1,000 increments, starting in 2007.

• If you are 70 years of age, or older, you may be able to transfer up to $100,000 per year directly from an IRA to a qualified charity without having to report it as income for federal income taxes. In fact, these distributions may satisfy required minimum distribution requirements. The provision is effective until Dec. 31, but covers 2006 and 2007 tax years.

Although it may take some time to see the results of The Pension Protection Act, at least it offers hope for helping to improve our pension system. As a financial advisor as well as investor, I can appreciate the importance of having savings. It is exciting to see the progress our society is making and the opportunities that are being created in order to help more Americans achieve financial independence.

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