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Retirement saving gets easier to do



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New legislation is sending a clear message to everyone concerned about a secure retirement: Save money.

The Pension and Capital Protection Act of 2006 is the largest piece of pension legislation — more than 900 pages — to pass Congress in 30 years.

The act's main purpose is to shore up the nation's pension system and protects company employee pensions. The law also makes it easier for people to contribute more money and keep it there longer. The law includes Individual Retirement Accounts, or IRA's, and plan provisions creating new retirement planning opportunities.

Here are some highlights:

Key retirement plan provisions are made permanent. Rules enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001, including provisions increasing individual retirement accounts limits for 401(k), 403(b), 457, SEP, SIMPLE and Profit Sharing Plans, are all permanent.

Other permanent provisions allow individuals 50 years and older to make catch-up contributions to their IRA and employee deferral plans. Roth 401(k) and Roth 403(b) provisions also are permanent now.

Economic Growth and Tax Relief Reconciliation Act provisions were scheduled to be repealed after 2010. That means increases in the basic IRA contribution limits would have been rolled back to the \$2,000 a year levels of 2001, if not for the Pension Protection Act of 2006.

Tax refunds can go to IRAs. Beginning with 2007 tax forms for 2006 income, you can direct part, or all, of your tax refund straight to your IRA or Roth IRA, so your annual IRA contribution could be made instantly. You will no longer have to wait for your refund to make your IRA contribution.

Non-spousal rollovers of certain retirement plans will benefit. For non-spousal beneficiaries of inherited company retirement plans, this is by far the best part of the new law.

Under current law, non-spousal beneficiaries usually are required by the plan to take a full distribution within five years of the deceased participant's death.

The new provision enables a child, or any other non-spousal beneficiary, to make a direct trustee-to-trustee transfer to an IRA that will be treated as an inherited IRA. This allows the heirs to spread the distributions over their lifetime and can ease the tax bite considerably.

The provision is effective with distributions made after Dec. 31, 2006. Therefore, non-spousal beneficiaries of deceased company retirement plan holders should wait until 2007 before taking distributions. They then will be able to transfer the money into an inherited IRA.

There still is no 60-day rollover for inherited money. The inherited IRA must be titled in the deceased's name for the benefit of the beneficiary; otherwise the inherited funds would be immediately taxable.

Charitable IRA rollovers also can benefit some. The new law permits taxpayers to make direct IRA distributions to charities without having to include the distributions in gross income. It permits up to \$100,000 in contributions each year to go directly to charity for the 2006 and 2007 tax years. It expires after 2007.

This new provision allowing qualified charitable distributions applies only to outright gifts and to IRA owners ages 70 years and older.

The big incentive is the charitable deduction from your IRA will satisfy your required minimum distribution. You won't have to pay tax on the amount of the required distribution given to charity.

Start or increase the amount saved each year, and control your own destiny. The message is clear.

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