

Newsletters

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Updated 2007 Employee Benefit Information

IRS has announced the 2007 employee benefits plan limits which are shown below in comparison with the 2006 figures.

2006 Value	2007 Value	
\$15,000	\$15,500	Maximum elective deferral under 401(k), 403(b) and 457(b) elections.
\$5,000	\$5,000	Maximum "catch-up" elective deferral for employees age 50 and over under 401(k), 403(b) and 457(b) elections.
\$44,000	\$45,000	Maximum participant allocation under all defined contribution plans, including 401(k), matching, profit sharing, etc. Total allocation cannot exceed 100% of compensation.
\$220,000	\$225,000	Maximum compensation allowed for determining benefits, contributions and tax deductible contributions for all retirement programs.
\$175,000	\$180,000	Maximum annual lifetime benefit allowed to be paid in a defined benefit plan commencing anytime between ages 62 and 65.
\$94,200	\$97,500	Social Security Taxable Wage Base taxed at 6.2%.

**NO
LIMIT**

**NO
LIMIT**

Medicare Wage Base taxed at 1.45% on all wages.

\$100,000

\$100,000

Salary in **current** year to be considered Highly Compensated Employee (HCE) in subsequent year. More than 5% owners (and their family members) in prior or current year are automatically HCEs regardless of salary.

The above limits are increased only when the Cost of Living Adjustment (COLA) reaches the next rounded threshold. Certain figures are rounded *down* rather than up, and the increments are not uniform for all figures. Thus, some figures may change for a given year, while others may not.

Calculation of 2006 Keogh Contribution

The calculation of contributions for self-employed individuals must reflect the deduction of 1/2 of the Social Security taxes on self-employment earnings (SEE). The procedure is complicated by the two-tiered Social Security tax (i.e., 12.4% of the first \$94,200 of SEE, plus 2.9% of all SEE). The \$220,000 compensation limit further complicates the calculation, regardless of the Plan type - Profit Sharing (PS) or Money Purchase (MP).

The 2007 Keogh contribution may be determined as follows*:

1. Enter Net Schedule C profit - but not more than \$273,502.60 \$ _____
(a) If item #1 is greater than or equal to \$101,997.80 multiply item #1 by .98661
2. #1 by .98661 \$ _____
(b) Subtract from item #2 (a) \$5,840.40
3. If item #1 is less than \$101,997.90 multiply item #1 by .92935 \$ _____
For defined contribution plan enter the contribution rate percentage
4. as a decimal, but not to exceed .25 \$ _____
5. Multiply item #4 by item #2 (b) or item #3, whichever is applicable \$ _____
6. Add one (1) to item #4 \$ _____

7. Divide item #5 by item #6 equals the 2006 Keogh Contribution (maximum \$44,000) \$ _____

***Note:** If the plan provides for contributions or allocations that are not pro rata on compensation (e.g., the plan provides for permitted disparity, or is age-weighted or otherwise cross-tested), or the self-employed individual also has regular W-2 wages subject to FICA taxes *from any employer*, then the above method **requires modification**.

Pension Protection Act of 2006 (PPA)

The Pension Protection Act was signed into law on August 17, 2006. The Act contains new rules for defined contribution plans, stricter funding rules for defined benefit plans and new distribution and rollover provisions. This article will highlight some of the provisions that are effective during 2007. Future newsletters will discuss provisions of the Act that are effective after 2007. Plan sponsors have until the end of the 2009 plan year to amend their plans for PPA.

DEFINED CONTRIBUTION/401(k) PLANS

- **EGTRRA's Higher Benefit/Contribution Limits Made Permanent.** EGTRRA increased deferral limits, added catch-up contributions for participants age 50 or older and added Roth 401(k) plans.
- **Accelerated Vesting.** All contributions in a defined contribution plan must be either 100% vested after three years or subject to a six-year graded schedule.
- **Benefit Statements.** Defined contribution plans that allow participants to direct their investments must give quarterly benefit statements to participants; otherwise annual statements must be provided. The earliest date plans are affected is May 15, 2007 for calendar year plan year first quarter. The information that must be contained in the statements has increased. The statements may be provided electronically.
- **Automatic Enrollment.** This is a 401(k) option that automatically enrolls eligible employees at a deferral percentage set by the employer unless the

eligible employee elects a different deferral amount or elects not to defer. PPA provides that state law concerns are preempted. Fiduciary protection is given to the default investments used when a participant has not provided investment direction if DOL guidelines are followed.

- **Prohibited Transaction Exemption for Investment Advice.** Personalized investment advice may be provided if it is generated by an “unbiased computer model” or if commissions or compensation received for investment advice does not vary depending on the basis of any investment option selected.
- **Hardship Withdrawals for Beneficiaries** can be made by the plan even if the beneficiary is not the participant's spouse or dependent. Previously hardships were only available to the participant.
- **Diversification of Employer Securities.** Plans that are publicly traded or part of a controlled group with a company that is publicly traded must immediately allow participants to diversify employee deferrals that are invested in employer securities. Participants in these plans with Employer contributions invested in employer securities must be allowed to diversify after they have been in the plan for three years.
- **Saver's Tax Credit Made Permanent.** Taxpayers earning less than \$25,000 (\$50,000 for married filing jointly) may qualify for a tax credit of up to 50% of their deferrals to a 401(k) or IRA contributions. The maximum credit is \$1,000.

ALL PLANS

- **Distributions to Active Duty Reservists** called to duty for at least 179 days, between September 11, 2001 and December 31, 2007, are not subject to the 10% penalty for withdrawals taken prior to age 59½. Eligible reservists who already paid the 10% tax can claim a refund. Reservists may re-contribute part or all of these distributions to an IRA by the later of two years after their active duty or two years after August 17, 2006.
- **Death Benefits Paid to Non-Spouse Beneficiaries May Be Rolled Directly Into an IRA.** The IRA is set up by the beneficiary in the name of the deceased participant and is subject to the minimum distribution rules of

an inherited IRA.

- **Deduction Limits Increased for Employers With Both Defined Benefit and Defined Contribution Plans.** An employer may make a 6% deductible contribution to a defined contribution plan in addition to their minimum required contribution to the defined benefit plan.
- **5500-EZ Filing Requirements Relaxed.** Plans with only owners, partners and their spouses are exempt from filing 5500-EZ if the plan assets are under \$250,000. The prior dollar limit was \$100,000.
- **Rollover of After-Tax Amounts.** After-tax contributions can be rolled over in a trustee-to-trustee transfer from a qualified retirement plan to a defined contribution plan, a defined benefit plan or 403(b) plan. The rollovers must be direct rollovers and the after-tax money must be accounted for separately.
- **Longer Notice and Consent Period** for cash out distributions, distribution of survivor annuities and eligible rollover distributions. It is extended from 90 days to 180 days.

DEFINED BENEFIT PLANS

- **Benefit Statements.** Defined Benefit plans must provide statements at least once every three years. The statements may be provided electronically.
- **Cash Balance and Other Hybrid Plans** are not age discriminatory as long as the annual credit itself does not discriminate on the basis of age. A problem with cash balance plans that credited interest to a participant's account at a rate other than the rate for calculating the value of lump sum distributions has been eliminated. Also each participant with at least three years of service must be 100% vested.
- **Distributions During Working Retirement.** Pension Plans may make in-service distributions to employees that are age 62 or older.