

Dear Clients & Friends:

We hope that all of you are having an enjoyable summer. In this newsletter we address topics in retirement and education planning, as well as recent practice news. Our special focus is on the much-discussed Pension Bill that was signed into law last month and on positive developments affecting 529 plans.

PENSION REFORM BILL

The Pension Protection Act, approved by President Bush on August 17th, is expected to give a boost to 401(k) retirement savings plans and impose tougher funding requirements on traditional company-funded pensions, so-called defined-benefit plans. The bill provides for or extends over 20 tax benefits affecting retirement savings. Below is a partial list of the provisions under the new law that we thought you might find informative:

Higher contribution limits.

- Temporary increases to 401(k) and IRA contribution limits that were set to expire in 2010 have been permanently extended.
- Individuals funding 401(k) and 403(b) plans can contribute \$15,000 in 2006 and up to \$16,500 thereafter under annual inflation adjustments. Elective deferrals allowed in 2006 for 457 plans and SIMPLE accounts are \$15,000 and \$10,000, respectively.
- IRA contribution caps will be \$4,000 in 2006 and 2007; \$5,000 in 2008; and adjusted for inflation thereafter.
- Additional catch-up contributions for those who are 50 or older are now permanent and will be adjusted for inflation going forward. In 2006 the caps are \$1,000 for IRAs, \$2,500 for SIMPLE IRAs, and \$5,000 for 401(k) and 403(b) plans.
- Roth 401(k) and Roth 403(b) plans have gained permanent status under the new provision. Participants can contribute post-tax dollars up to the existing limits.

Increased participation in 401(k) plans. Companies are authorized to automatically enroll new employees in their tax-deferred 401(k) plans. (Employees who don't wish to contribute to their employer's 401(k) plan will have to specifically decline.) The hope is to raise plan participation from the current 70% to 90% of eligible employees. Additionally, financial firms that offer investments as part of an employer-sponsored 401(k) plan will be allowed to provide investment advice to participants.

Extended 401(k) hardship withdrawals. Under current rules, hardship withdrawals are permitted only for the plan participant and/or spouse. The new law allows anyone who is listed as an account beneficiary to be considered for purposes of establishing hardship.

Charitable gifts from traditional and Roth IRAs. Individuals over age 70½ can contribute up to \$100,000 each year directly from IRAs to qualified charities and private operating foundations. Such contributions will be allowed through the end of 2007 and will not be taxed as income to the donor. However, transfers to donor advised funds are prohibited.

Stricter rules for charitable donations. Under the new law, taxpayers must keep records (such as receipts, canceled checks, or any other documentation to prove the contribution) of all cash donations in the event of an IRS audit. In addition, non-cash donations such as clothing, household goods, and cars are required to be in good condition, although the definition of "good" is yet to be established!

Retirement plan rollovers for non-spousal beneficiaries. After December 31, 2006, non-spousal beneficiaries will be able to roll over assets inherited from a qualified retirement plan (e.g., 401k) into their own Beneficiary IRA account. These assets will be taxed only when withdrawn over the recipient's life expectancy; the rollover itself is not taxable. Previously, this deferral opportunity was available only to spouses and to individuals who inherited IRAs.

Direct rollover from 401(k) to Roth IRA. Starting in 2008, rollovers from 401(k) to Roth IRA accounts will be treated as a Roth conversion. Currently there has to be an intermediate rollover to a traditional IRA first. The current income limit of \$100,000 per household will still apply.

Full funding of traditional pension plans. Companies that offer defined-benefit plans, are required to fully fund their pensions over a seven-year period starting in 2008 (airlines have 17 years to meet the funding obligations). To encourage full pension funding, the new law allows employers to deduct the cost of making additional contributions and imposes a 10% excise tax on companies that fail to correct their funding deficiencies.

FAVORABLE AND PERMANENT UPGRADES FOR 529 PLANS

The Pension Protection Act of 2006, summarized above, restores confidence in using Section 529 plans as an investment vehicle for many families who are saving for their children's higher education. The act makes permanent the 529 plan upgrades that were part of the 2001 EGTRRA tax law; these were scheduled to sunset at the end of 2010. The new bill establishes permanent federal tax-free treatment of 529 withdrawals used for post-secondary education.

Unfortunately, the good news doesn't extend to the Coverdell education savings account (ESA). Several tax provisions (such as the \$2,000 annual contribution cap and tax-free withdrawals for elementary and secondary school) are due to expire in 2010. However, ESA account holders can make tax-free rollovers to a 529 plan at any time after 2010.

In Maine, a new state tax deduction for contributions to Section 529 programs goes into effect on January 1, 2007. Individuals earning less than \$100,000 (and families earning up to \$200,000) who contribute to 529 plan accounts will be eligible for a \$250 deduction per family member on their taxes. Maine is one of the first states to offer such a deduction for contributions to out-of-state 529 plans. In addition, the supplemental budget passed in March extends the state tax deduction on student loan interest from five years to the full life of the loan - to conform to federal tax treatment.

PFPG NEWS

Brian and Marina are proud to announce that Tom received the prestigious 2006 President's Award from Maine Initiatives last May, in recognition for his extraordinary commitment to volunteer service and professional guidance. Please join us in congratulating Tom for this well-deserved achievement and for his dedication to serving the greater Maine community.

Besides painting the office this summer, we've also made enhancements to our systems administration by adopting AttachPlus as an extra security measure for all our electronic communications. The software encrypts outgoing attachments, thereby protecting them from third party viewing. For sensitive or personally identifiable documents, we will utilize passwords known only to the recipients. In the next two weeks each of our clients will receive a personal password in the mail; our professional colleagues will be provided passwords on an "as-needed" basis.

We wish you all well!

