American Funds®

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Pension Protection Act's golden nuggets

The Pension Protection Act of 2006 will likely have a ripple effect across your relationships with plan sponsors and the plan participants they represent. We've put together a guide to help you sift through what's new and identify the nuggets of information that will prove most useful as you meet with prospects and your existing clients.

Provision	What it means	Opportunity	Effective date
Default investments	The U.S. Department of Labor (DOL) has issued regulations defining appropriate default plan investment options.	The American Funds Target Date Retirement Series℠ meets the DOL requirements for qualified default investment alternatives (QDIAs). PlanPremier® and Recordkeeper Direct® offer the American Funds Target Date Retirement Series as one of the investment choices plan sponsors can select as a QDIA.	**60 days after regulations are finalized**
Enhancements to 401(k) automatic enrollment	Employees are automatically enrolled in the plan unless they opt out. Enhancements include more time for ADP/ACP testing, the opportunity to avoid testing if certain safe harbor requirements are met and a simplified way to deal with employees who may forget to opt out. Federal law now supersedes any state law for plans selecting a QDIA as the default investment, which in the past may have restricted employers' ability to offer automatic enrollment.	Both your prospects and your existing book of business will benefit from PlanPremier, our fully bundled retirement plan solution. PlanPremier already offers some of the features of automatic enrollment.	**Plan years beginning in 2008**
EGTRRA increases for 401(k) plans to stay	The increased maximum contribution amounts implemented under the Economic Growth and Tax Relief and Reconciliation Act (EGTRRA) will not revert back to pre-2001 limits. This ensures participants can continue to save for retirement at higher rates.	Host re-enrollment meetings to make sure employees are taking full advantage of the higher contribution amounts. This provision takes effect immediately. Arm yourself with our *Your Ticket to Retirement* enrollment book, *It's Time for a Checkup*, and *Running on Empty?* and set up those meetings.	**August 2006**
Roth 401(k)/403(b) contributions won't disappear after 2010	Originally set to sunset after 2010, Roth 401(k)s and 403(b)s give employees the flexibility to choose between paying their taxes now or paying them later.	Reach out to existing clients who haven't offered a Roth option in their plans. Many may not have added the Roth option because of the sunset clause, thinking it was too much trouble for a short-term benefit. Our Investing for Life brochure, *Two Sweet Ways to Save*, describes Roth 401(k) and 403(b) contributions. When you go through this brochure with plan sponsors, be sure to point out that the extension legislation referred to in the text has now been passed.	**August 2006**
Direct rollover to Roth IRAs	A retirement plan participant who leaves a job can make a direct rollover from a retirement plan into a Roth IRA, subject to the rules for traditional IRA to Roth IRA conversions. This provision removes the need to first roll over into a traditional IRA before converting to a Roth IRA.	When participants leave, you have an opportunity to reconnect to educate them about how to handle their plan assets. The rollover opportunity can also be a part of prospecting, as new employees think about rolling their previous 401(k) balances into Roth IRAs.	**Plan years beginning in 2008**
Faster vesting	EGTRRA required that employer-matching contributions vest according to a six-year graded schedule or after three years of service. The new law requires that the six-year graded schedule or the three-year vesting schedule apply to employer non-elective contributions, as well.	Even though plan amendments are not required until 2009, your clients' plans must comply with the new vesting requirements for plan years beginning in 2007. Your clients should consider amending early to avoid having to make additional payments at a later date.	**Plan years beginning in 2007**
Employer stock diversification	Employees investing in employer stock through their company retirement plans must be given an opportunity to diversify their investments.	This is an opportunity to review the other investment options available in your clients' plans to make sure the offerings are diversified. Also remind them to set up the phase-in schedule for the diversification (33% the first year, 66% the second, 100% the third) and create participant notices.	**Plan years beginning in 2007**

Other noteworthy provisions

Mapping of investment options

The Act provides limited relief from fiduciary responsibility for plan sponsors during blackout periods or when plan investments are being changed or replaced. The Act's mapping provisions are effective for plan years beginning in 2008.

RMD contributions to charities

IRA owners age 70½ or older can now make a donation of up to $100,000 directly to a charity from their IRA instead of taking a taxable distribution. The tax-free donation can be counted toward satisfying their required minimum distribution (RMD) for the year. This provision is effective only for 2006 and 2007.

Rollovers by non-spouse beneficiaries

Beginning in 2007, a beneficiary other than a surviving spouse may roll money from an employer-sponsored retirement plan account into an inherited IRA instead of having to take a taxable lump-sum distribution as required by many retirement plans.

Saver's credit

The nonrefundable saver's credit is made permanent by the Act. Designed to encourage lower-income employees to save for retirement, the credit can result in a tax reduction of up to $1,000.

529 college savings plans

Qualified withdrawals from 529 plans, including those made after 2010, will continue to be federally tax-free. This provision is effective immediately.

Annual contribution amounts

The Pension Protection Act of 2006 preserves the increases in contribution amounts set forth in EGTRRA for defined contribution plans as follows:

Plan type	2007 maximum annual contribution amount*	2007 catch-up amount*†
401(k), 403(b), 457, SARSEP	$15,500	$5,000
SIMPLE	$10,500	$2,500

* Amounts will be adjusted for inflation in $500 increments in subsequent years.

† Catch-up contributions are available only to plan participants age 50 and older.

Individual retirement accounts (IRAs)

The Pension Protection Act also preserves the phased increases and catch-up contributions established in EGTRRA for IRAs.

Year	Maximum annual contribution amount*	Catch-up amount†
2007	$4,000	$1,000
2008	$5,000*	$1,000

* Amounts will be adjusted for inflation in $500 increments in subsequent years.

† Catch-up contributions are available only to plan participants age 50 and older. IRA catch-up amounts are not subject to cost-of-living increases.

For more information

We will provide you with regular updates on this new legislation as more information becomes available.

Financial advisers can visit us at **americanfunds.com/adviser**.

Third-party administrators can speak to the financial representatives they work with for more information.

For financial advisers and third-party administrators only. Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so investors may lose money. Investors should carefully consider the investment objectives, risks, charges and expenses of the American Funds. This and other important information is contained in the funds' prospectuses, which are available from their plan's financial representative and on the Web. It's important that investors read the prospectuses carefully before they invest.

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