

## Questions and answers with Steve Troutman

*Local accountant explains new pension reform bill.*

**Q: If I'm in a company-sponsored 401(k) plan, what options do I have now?**

**A:** You can contribute a percentage of your pay to the plan instead of receiving it in cash. The maximum percentage that can be contributed varies by plan. The maximum amount that you can contribute for 2006 is \$15,000 if you will not be 50 years of age by Dec. 31. Or \$20,000 (\$15,000 plus a \$5,000 'catch up' contribution) if you will be 50 or older by Dec. 31, unless the plan is otherwise limited by certain nondiscrimination tests. Distribution options vary by plan.

Participants in 401(k) plans typically make their own investment choices from investment options (usually mutual funds) made available by the plan sponsor and investment provider.

**Q: If I'm not enrolled in a 401(k) plan, can my employer force me to enroll?**

**A:** While this was available previously, the new law makes it easier for employers to automatically enroll employees into the company's 401(k) plan, typically at a nominal percentage. Under such an arrangement, the employee actually has to elect out of the plan instead of electing in. We haven't seen many employers use this provision.

**Q: How does the law let the provider of my company's 401(k) plan offer more advice on what to do with my plan?**

**A:** The new law permits retirement plan providers to offer personalized investment advice to participants. However, employers offering retirement plans, and not the investment providers, must still be the ones picking the investments to be included as investment options in the plan.

While some believe that the greater access to investment advice is beneficial to participants, others are concerned that providers/advisers may steer participants to investments that are more beneficial to the provider/adviser, due to commissions and fees, than the participant.

**Q: Does the law help new graduates in their first or second job start funding their retirements?**

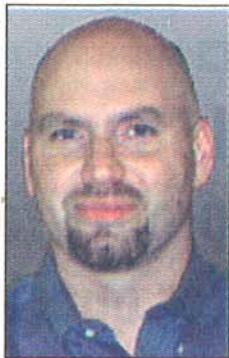
**A:** Possibly. For instance, under the new law, a taxpayer can direct the Internal Revenue Service to deposit her refund directly into an IRA. Keeping the refund from touching the taxpayer's hands where she may be tempted to spend it may help individuals save for retirement who otherwise wouldn't.

More importantly, the Saver's Credit that was set to expire Dec. 31 is now permanent. This is a tax credit for certain lower- and middle-income taxpayers for contributions to employer-provided retirement plans or IRAs. In other words, the IRS is partially funding your contributions.

**Q: What other provisions were included in the bill?**

**A:** Making the otherwise temporary retirement and income tax provisions in the sweeping 2001 tax law permanent is huge because it removes the uncertainty that was present in current tax law. Most of the provisions were set to expire in 2010.

The Bush administration has wanted these provisions made permanent for years, and this is a much-needed victory. Congress is currently working on additional income tax and estate tax changes that have proven to be contentious among Congressional members, typically along party lines.



**Steve Troutman**

Today's Q&A is with a certified public accountant and tax manager for Murrell, Hall, McIntosh & Co. in Oklahoma City.