

## Pension Protection Act of 2006

**“Laws control the lesser man... Right conduct controls the greater one.” Mark Twain**

After more than two years in the making, last month President Bush signed into law the Pension Protection Act of 2006. This legislation aims to shore up the pension system by amending and adding hundreds of provisions to make retirement plans operate more smoothly. Industry experts are calling the massive 900+ page law the most comprehensive pension legislation since The Employee Retirement Income Security Act of 1974 (known as “ERISA”). Congress enacted the law that encompasses pension funding reform, participant investment enhancements, retirement savings provisions and other significant benefit plan law changes. While the new law is considerable, and professionals are still digesting its significance, we thought we would highlight a few of the general provisions in the retirement and education savings area that may affect you and provide possible planning opportunities. As with all tax matters, please consult with your CPA / tax advisor as to how the tax law affects you.

**Permanent Retirement and Savings Incentives:** The Pension Protection Act makes permanent several favorable retirement provisions enacted in The Economic Growth and Tax Relief Reconciliation Act of 2001. The 2001 legislation substantially increased pension and individual retirement account (IRA) contributions limits through 2010 as well as making other improvements in pensions and retirement savings through enhanced vesting, portability and reduced regulatory burdens. The new law will also index the income limits to inflation for Traditional, Spousal and Roth IRAs, preventing their erosion.

Roth 401(k) plans and catch-up contributions are among the retirement provisions originally established in the 2001 law that are now made permanent. Note that many employers have been hesitant to adopt the Roth 401(k) plan on the grounds that they could sunset in 2010. This is a very attractive savings vehicle, particularly for younger employees, as it allows tax-free withdrawals from the account after age 59 ½. Other now-permanent provisions include broader funding opportunities for the 45 million Americans covered by 401(k) plans, and higher levels of permitted contributions to other elective deferral plans.

### Other provisions:

**529 Plans (Qualified Tuition Programs):** The tax-free treatment for qualified withdrawals from 529 plans (i.e., withdrawals used to pay “qualified higher education expenses”) has now been made permanent. It was originally set to expire at the end of 2010. As a result, 529 Plans compare even more favorably to other college savings vehicles.

**Inheriting Retirement Plan Assets:** After Dec. 31, 2006, non-spouse beneficiaries of a deceased person's qualified retirement plan will be permitted to roll over the proceeds into an IRA. Before this legislation, only spouses had this right, which left other beneficiaries vulnerable to immediate taxation of the entire balance if the plan required a lump-sum distribution.

**IRA Charitable Contribution:** Solely for 2006 and 2007, the new law allows an individual of at least age 70 ½ to contribute up to \$100,000 to a charity without including the donated amount in their gross income. In addition, everyone is now required to document all of their cash donations to charity by

either bank records or a receipt from the charity. Previously, only receipts for monetary contributions over \$250 were required.

**Automatic 401K Enrollment:** The Pension Protection Act will remove barriers that prevent companies from automatically enrolling their employees in defined contribution plans (such as 401k plans). Surveys suggest that automatic enrollment boosts participation from 60-70% to 90% or more. This provision will be effective in 2008.

**Employer Stock:** As a result of the Enron and Worldcom scandals, defined contribution plans that hold publicly traded employer stock will now be required to allow participants and beneficiaries to divest those shares more rapidly. Plans will be required to offer at least three different types of investment options, in addition to employer securities, to satisfy a variety of risk tolerances. In addition, the new law provides greater access to professional advice regarding investing for retirement.

**Going to the Sun Road:** As frequently happens with federal legislation, some unrelated provisions were attached to this law. One of those provisions includes authorization for the appropriation of \$50 million in funding to resurface, repair, rehabilitate and reconstruct the Going to the Sun Road at Glacier National Park in Montana. This is a beautiful road and now it will be smooth again!

Throughout the year we will highlight other provisions of the new Act that may impact you.

## Madison Recognition

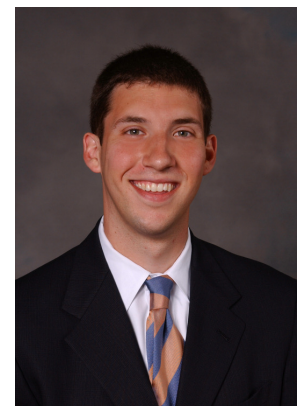
We would like to highlight two recent accolades received by Madison. Madison Wealth Management recently earned a coveted spot in the Bloomberg Wealth Manager® annual ranking of America's top wealth managers. This was Madison's third consecutive year ranked among the nation's elite independent financial advisors.

Madison was also named one of the fastest growing Independent Registered Investment Advisory Firms by Financial Advisor®. Madison was ranked 27<sup>th</sup> in the U.S. among firms with client assets of between \$100 million and \$300 million. We would like to thank our clients and friends for referrals and look forward to being of service to others in the future.



## Edward Kuresman completes the CFA Program

We are also pleased to report that Ed Kuresman has completed all three levels of the Chartered Financial Analyst (CFA) program and is now looking forward to receiving his CFA charter. The CFA charter is the designation of professional excellence within the global investment community – this year candidates from 145 countries sat for one of the three levels of the CFA exam. The CFA Program has evolved with the profession since it was first awarded in 1963. Initially the program focused exclusively on U.S. equity security analysis and emphasized ethical and professional standards. Today those topics, while still prominent, are presented in a global context along with fixed-income analysis, alternative and derivative investments, and portfolio management. Ed will soon join Cern Basher, CFA and Alan Henning, CFA as Madison's CFA charter holders.



We are also pleased to report than Ed recently married his long time sweetheart, Jessica Leibold. After a well-deserved honeymoon on a Mediterranean cruise to Italy and Greece, they will reside in Cincinnati's Hyde Park neighborhood. Congratulations to Ed and Jessica!

**"The reward of a thing well done, is to have done it." Ralph Waldo Emerson**