

BENEFIT CONSULTANTS GROUP CLIENT NEWSLETTER

Spring 2007

A number of important pension and benefit developments occurred in the past three months that may affect your retirement planning. These developments are summarized below. Please call us for more information about any of these developments and what steps you should implement to take advantage of favorable developments and to minimize the impact of those that are unfavorable.

New guidance on new rollover option for nonspouse beneficiaries of retirement plan accounts. The IRS has issued guidance on a new-for-2007 choice for nonspouse beneficiaries of an inherited qualified plan account. These beneficiaries may transfer part (or all) of the deceased employee's account balance into an inherited IRA. Under the new guidance, a nonspouse beneficiary can, in most situations, receive payouts from the inherited IRA over his or her lifetime. This can make an inherited IRA a powerful tax-deferral tool, but expert help is a must to assure that key rules are met (such as when distributions from the inherited IRA must begin). Company retirement plans may, but are not required to, offer the rollover option for nonspouse beneficiaries. Please contact us if you would like to incorporate this option in your plan.

Liberalized 401(k) rules for hardship withdrawals. You can take a distribution from a 401(k)-type plan only on account of certain events, such as disability, retirement, or "hardship"—you need to withdraw cash to satisfy an immediate and heavy financial need. The rules used to say that to take a hardship payout, you (and, in some cases, your spouse or dependent) had to have the immediate and heavy financial need. But under a change mandated by the 2006 Pension Protection Act, the IRS has amended the rules to allow 401(k) payouts for a primary beneficiary's hardship. This primary beneficiary doesn't have to be your dependent. However, the hardship must be for certain specific expenses, such as medical bills or tuition costs. Again, your retirement plan must be amended to take advantage of this new rule.

IRS explains new IRA-to-charity rollover options for older taxpayers. For 2006 and 2007, an IRA owner who is age 70-1/2 or older can directly transfer tax-free up to \$100,000 per year from an IRA to an eligible charitable organization. Amounts transferred are not taxable, and a deduction can't be claimed for the amount given to the charity. Transferred amounts are counted in determining whether the owner has met the IRA required minimum distribution rules. The IRS's explanation of how this rollover rule works takes a decidedly liberal approach. For example, it permits each spouse to make an up-to-\$100,000 tax-free transfer, and allows an IRA owner either to make a direct transfer from the IRA to the charity or hand-deliver a check from the IRA made out to the charity. The IRS also permits otherwise qualifying IRA beneficiaries (not just IRA owners) to make the nontaxable rollover.