

insights for investors

Pension Protection Act 101

The new Pension Protection Act of 2006 includes important benefits for retirement savers. Here are some of the key provisions:

Individual Retirement Accounts (IRAs)

- Contributions and catch-up amounts maintained**

The Act preserves phased increases and catch-up contributions established in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) 2001.

Year	Annual limit*	Catch-up amount
2006	\$4,000	\$1,000
2007	\$4,000	\$1,000
2008	\$5,000	\$1,000

*After 2008, amounts will be adjusted for inflation in \$500 increments in subsequent years.

- Rollovers by non-spouse beneficiaries**

Starting in 2007, a beneficiary other than a surviving spouse may roll money from an employer-sponsored retirement plan into an IRA instead of having to take a taxable lump-sum distribution.

- Direct rollovers to Roth IRAs**

Beginning in 2008, a retirement plan participant who leaves a job can make a direct rollover of his or her entire retirement account into a Roth IRA without having to first roll into a traditional IRA.

- Charitable contributions in lieu of taxable distributions**

For the 2006 and 2007 tax years only, IRA owners who are at least 70½ years old can direct the IRA custodian to make a tax-free donation to charity of up to \$100,000 instead of taking a taxable distribution. The distribution check must be made payable directly to the charity, and the amount can be counted toward the required minimum distribution for the year.

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Defined contribution plans

- Contributions and catch-up amounts maintained**

Phased increases in participant contribution limits and catch-up contributions for participants who are at least 50 years old will *not* expire after 2010.

Plan type	2006 annual limit/catch-up amount	2007 annual limit/catch-up amount*
401(k), 403(b), 457, SARSEP	\$15,000/\$5,000	\$15,500/\$5,000
SIMPLE	\$10,000/\$2,500	\$10,500/\$2,500

*After 2008, amounts will be adjusted for inflation in \$500 increments in subsequent years.

- Faster vesting**

Employer non-elective contributions must vest at least as quickly as matching contributions (3-year cliff or 6-year graded vesting schedule) for plan years beginning in 2007.

- Roth 401(k)s and 403(b)s preserved**

Originally scheduled to sunset in 2010, 401(k) and 403(b) plans can continue to accept Roth contributions after that date.

- Employer stock diversification**

Beginning in 2007, employees investing in employer stock must be given an opportunity to diversify their investments.

Other noteworthy provisions

- Saver's credit**

The nonrefundable saver's credit, designed to encourage lower income employees to save for retirement, is made permanent by the Act. The credit can result in savings of up to \$1,000.

- 529 college savings plans**

Qualified withdrawals from 529 plans, including withdrawals after 2010, will continue to be federally tax-free.

For more information about this new legislation, please consult your financial adviser.

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