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CORRESPONDENCE MEMORANDUM

DATE: May 3, 2007
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
 Wisconsin Deferred Compensation Program
SUBJECT: The Pension Protection Act of 2006

President Bush signed the Pension Protection Act of 2006 (PPA) into law on August 17, 2006. The PPA made many changes to federal regulations regarding retirement savings plans. Perhaps most importantly, the PPA permanently extended the retirement savings provisions of the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA) that were set to expire on December 31, 2010. These EGTRRA provisions included the increased annual deferral amounts and cost of living increases, age 50 catch-up contributions, enhanced portability including rollovers, flexible distributions, Domestic Relations Order account divisions and the Saver's Tax Credit.

The PPA also added some new optional provisions that plans may choose to include. The table below outlines PPA provisions that apply to s. 457 defined contribution plans such as the Wisconsin Deferred Compensation Program (WDC). Because the Internal Revenue Service and the Treasury are expected to issue further guidance on PPA provisions, government plan sponsors such as the Board have been given until January 1, 2011 to amend their plan documents to conform with the new provisions authorized under the PPA.

Pension Protection Act of 2006 and the WDC			
Provision	Summary	Effective Date	Notes
s. 824 Rollovers to Roth IRAs	Permits direct rollovers to Roth IRAs. This is for amounts eligible for conversion only, subject to \$100,000 limit. The taxable amount is taxed at the time of the rollover.	Distributions after 12/31/07	Optional Eliminates previous two step rollover (from s. 457 plan to traditional IRA, then from traditional IRA to Roth IRA)

Reviewed and approved by David Stella, Deputy Secretary

 Signature Date

Board	Mtg Date	Item #
DC	05/15/2007	6

Pension Protection Act of 2006 and the WDC			
Provision	Summary	Effective Date	Notes
s. 826 Expanded Financial Emergency Hardship Withdrawals	Permits withdrawals for qualifying financial emergency hardships and unforeseen emergencies for the participant's designated beneficiary. Previous law only permitted this if the beneficiary was a spouse or dependent.	Current	Optional Coverage is not automatic for non-spousal beneficiaries; participant must designate them.
s. 829 Non-spouse beneficiary rollovers Amends s. 457(e)(16)(B) to include cross reference to the new s. 402(c)(11)	A participant's account may be transferred to a non-spouse beneficiary (domestic partner, sibling, parent, child, etc.) when the participant dies. Benefits received by a non-spouse beneficiary from a qualified plan may be directly rolled over to an IRA, which is then treated as an inherited IRA.	Distributions after December 31, 2006	Optional Allows beneficiary to delay receipt of required minimum distributions until they are 70 ½. Must be a direct trustee-to-trustee transfer
s. 845 Public Safety Officer distributions for health and long term care insurance premiums \$3,000 tax exemption	Tax-free distributions up to \$3,000 for health and long term care insurance for retired public safety officers, their spouses and dependents from qualified plans – including qualified gov't. plans, 403(b) and 457 plans. Under the PPA, an eligible retired public safety officer is a law enforcement officer, a firefighter, a chaplain, or a member of a rescue squad or ambulance crew who, by reason of disability or attainment of normal retirement age, separated from service as a public safety officer.	Distributions in taxable years beginning after December 31, 2006	Optional -- only applicable if the plan agrees to deduct and directly remit premiums to an insurer. Appears that participants must request the tax free treatment for these distributions when they file their tax return.

WDC Administration and PPA Changes

The optional PPA provisions listed above provide new flexibility for s. 457 plans such as the WDC. Department staff has queried Great West Retirement Services (GWRS) on its ability to implement the PPA provision changes. GWRS is preparing to implement these provisions. The GWRS system will require programming modifications during this calendar year to implement the provision permitting s. 457 plan participants to rollover assets to a Roth IRA by January 1, 2008. GWRS is also making changes for the public safety officer health and long term care premium exemption. They are amending their standard distribution forms to collect the name and address of an insurance company, since the participant must elect to send a distribution directly to the insurer, and have created an election form for this particular provision.

Conclusion

The PPA provisions discussed in this memo would provide new services to WDC participants. Department staff recommends that the Board consider revising the Plan and Trust to include the following provisions authorized by the PPA:

1. s. 824, permitting rollovers to Roth IRAs;
2. s. 826, expanding financial emergency hardship withdrawals to include beneficiary hardships;
3. s. 829, adding non-spouse beneficiary rollovers; and
4. s. 845, providing tax free distributions of up to \$3,000 for retired public safety officers paying health and long term care insurance premiums directly to insurance companies.

If the Board determines that the new PPA provisions warrant revising the Plan and Trust document, staff will draft proposed Plan and Trust revisions for Board approval at the November 2007 Board meeting.

Department staff will be available at the meeting to discuss this memo and answer any questions you may have regarding the PPA.