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Retirement Plan Update

Pension Relief Passed by Congress

With the financial markets as they are, Congress took quick action to approve the “Worker, Retiree, and Employer Recovery Act of 2008” (H.R. 7327) (WRERA), which President Bush is expected to sign into law shortly. *WRERA makes technical corrections to the Pension Protection Act of 2006 (PPA '06), provides temporary limited funding relief to defined benefit plans, and suspends for 2009 the required minimum distribution rules for most defined contribution plans and IRAs.*

Relief from Required Minimum Distribution (RMD) Requirements

In light of the economic crisis, WRERA provides a one-year waiver of the requirement that defined contribution plans (and IRAs) make minimum distributions to individuals who have attained age 70-1/2. WRERA removes the requirement for minimum distributions for calendar year 2009.

Note that this suspension does not apply to defined benefit plans and applies only to 2009 required minimum distributions. Congress has requested that President Bush use his authority to direct the Secretary of the Treasury to waive the same rules for 2008, and to allow retirees who have already withdrawn in 2008 to make recontributions to their accounts.

Defined Benefit Plan Funding Relief

Many businesses with defined benefit plans have absorbed a double blow: satisfying the PPA '06 requirements for fully funding their plans and seeing the market value of the plan assets eroded by the decline in the markets.

WRERA does not eliminate funding obligations for 2009 but rather reduces required deposits in light of the economic downturn. The bill includes the following funding relief:

- For plan years between October 1, 2008, and September 30, 2009, WRERA eases the requirement that would otherwise compel employers to restrict the accrual of pension benefits in underfunded plans; and
- Plans at or below a specific funding threshold would be eligible for transition relief.

PPA Technical Correction Provisions

WRERA includes several long-awaited corrections to the 2006 PPA legislation, including:

- **Asset smoothing** – Allows pension plans to stretch out (“smooth”) unexpected asset gains and losses over 24 months in order to soften the effects of 2008 asset value decreases
- **Benefit Restrictions** – Permits lump sums of \$5,000 or less to be paid, even if an underfunded plan is otherwise prohibited from paying lump sums
- **Portability** – Allows rollover from a Roth designated account in a tax-qualified plan or tax shelter annuity to a Roth IRA regardless of income
- **Rollovers** – Requires plans to allow nonspouse rollovers effective for plan years beginning after December 31, 2009

While these changes are technical in nature, they are welcome as the first step toward relief of plan sponsors’ pension funding and plan operations. We will continue to monitor Congressional legislation and IRS/DOL regulatory relief in order to give our clients the benefit of the most current consulting advice.

We will apply all permissible relief provisions to our clients' plans to ensure that you benefit from every available option. No action is required at this time. When the holidays end, you may have questions regarding these new rules; please do not hesitate to contact us then, at 619-696-7284. We will be contacting you throughout 2009 with any updated information that may impact your retirement plan.