RETIREMENT PLANNING AND EMPLOYEE BENEFITS FOR FINANCIAL PLANNERS
5TH EDITION UPDATES

CHAPTER 1 PAGE 8

The sentence under Exhibit 1.5 should read as follows:

In particular, 401(k) plan assets have risen from $385 billion in 1990 to $2.7 trillion in **2006**. The largest amount of the money (55%) was invested in mutual funds.

CHAPTER 3 PAGE 103

Exhibit 3.13

The changes are in **bold**.

	Defined Benefit Plan	Defined Contribution Plan
Definition	More than 60% of the total accrued benefits of the defined benefit plan are for the benefit of key employees.	More than 60% of the total account balances of the defined contribution plan are for the benefit of key employees.
Funding	Must be at least 2% x years of service x compensation factor (**up to 20%**)	3% minimum to all eligible **non-key** employees or less if less provided to the key employees
Vesting	The plan participant's benefits must vest at least as rapidly as a 2 to 6 year graduated vesting schedule or a 3-year cliff vesting schedule. This only impacts defined benefit plans for years after 2006.	

CHAPTER 5 PAGE 208

Example 5.11

After the 2nd paragraph, the following explanation should be added:

> In 2008, Rita elects to defer 8% of her $40,000 salary to a 401(k) plan. Her employer matches 50% of her deferral up to a maximum of 6%. For the year, Rita contributes $3,200 and her employer contributes 3% (50% of 6%), or $1,200, for a total contribution of $4,400.
>
> If Rita is attempting to maximize her employee deferral contributions, she can elect to defer $15,500, and if she is age 50 or over, she can elect to defer the catch-up of $5,000. Rita's total deferral contribution to the 401(k) plan would be $20,500. Her employer would match $2,400 (6% x $40,000) for a total of $22,900 or 57% of her salary. Rita's W-2 would show $19,500 ($40,000 - $20,500) subject to federal income tax, although she and her employer would pay payroll taxes on the full $40,000. The employer match would not be subjected to payroll tax or income tax.
>
> **The employer match, presuming the same plan as immediately above, would be $1,200 (3% of $40,000) not $2,400. Therefore, the total contribution would be $21,700, not $22,900.**

CHAPTER 6 PAGE 275

Exhibit 6.7. Change is in **bold**.

	Stock Bonus Plans	ESOPs
Plan Establishment	December 31	December 31
Date of Contribution	Due date of tax return plus extensions	Due date of tax return plus extensions
Type of Contributions	Generally stock	Generally stock
Deductible Contribution Limit	*25% of covered compensation*	*25% of covered compensation plus interest paid on loan*
Valuation	Generally needed	Generally needed plus dividends (in certain circumstances)
Eligibility	Same as other Qualified Plans (21 and 1 year of service or 2 years with 100% vesting)	Same as other Qualified Plans (21 and 1 year of service or 2 years with 100% vesting)
Allocation Method	% of compensation or formula based on age, service of classification	% of compensation or formula based on age, service of classification
Integration with Social Security	*Yes*	*No*
Vesting	Same as other Defined Contribution Qualified Plans (3-year cliff or 2 to 6 year graduated vesting)*	Same as other Defined Contribution Qualified Plans (3-year cliff or 2 to 6 year graduated vesting)*
Portfolio Diversification	No**	**Yes, up to 50% if at least 55 years old and 10 years of participation**
Voting Rights	Generally yes	Generally yes
Distributions	Generally stock	Generally stock
In-Service Withdrawals	May be allowed after two years of participation	May be allowed after two years of participation
Loans	May be allowed (but not usually)	May be allowed (but not usually)
Taxation of Distributions	Ordinary income with NUA treatment available	Ordinary income with NUA treatment available

Note: The differences between Stock Bonus Plans and ESOPs are highlighted in blue.
**Effective for plan years after 2006 under the Pension Protection Act of 2006.*
*** Diversification may be required under PPA 2006.*

CHAPTER 9 PAGE 431

Exhibits 9.8 and 9.9 have been revised to include astericked information as well as bolded changes.

Exhibit 9.8

Applies to Distributions from:	Exception to 10% Early Withdrawal Penalty
Both Qualified Plans & IRAs	Death
Both Qualified Plans & IRAs	Attainment of age 59½
Both Qualified Plans & IRAs	Disability
Both Qualified Plans & IRAs	Substantially equal periodic payments (Section 72(t))
Both Qualified Plans & IRAs	Medical expenses that exceed 7.5% of AGI
Only Qualified Plans	**Qualified Domestic Relations Order (QDRO)***
Only Qualified Plans	Attainment of age 55 and separation from service
Only Qualified Plans	Public safety employee who separates from service after age 50
Only IRAs	Higher education expenses
Only IRAs	First time home purchase (up to $10,000)
Only IRAs	Payment of health insurance premiums by unemployed

Exhibit 9.9

Exception to 10% Early Withdrawal Penalty ✗ = Not Permitted	Qualified Plans	Traditional IRAs	Roth IRAs
Death	✓	✓	✓
Attainment of age 59½	✓	✓	✓
Disability	✓	✓	✓
Substantially equal payments	✓	✓	✓
Medical expenses that exceed 7.5% AGI	✓	✓	✓
Qualified Domestic Relations Order (QDRO)*	✓	✗	✗
Attainment of age 55 and separated from service	✓	✗	✗
Public safety employee separated from service after 50	✓	✗	✗
Education expenses	✗	✓	✓
First time home purchase (up to $10,000)	✗	✓	✓
Payment of health insurance premiums by unemployed	✗	✓	✓

Footnote to Accompany Exhibit 9.8 and Exhibit 9.9 page 431:

Where there is a distribution at divorce and the payee is under 59 1/2, the use of a QDRO directed distribution will result in a taxable event, but will not incur the 10% early withdrawal penalty. Under the same circumstances except that the distribution is from an IRA, the result is both a taxable event and the application of the 10% early withdrawal penalty. However, the payee in any case can choose to rollover the distribution in which case the rollover rules would apply or the payee can take substantially equal periodic payments under Section 72(t).

CHAPTER 9 PAGE 441

The second half of Exhibit 9.13 has been revised to include astericked information as well as a bolded change.

Exhibit 9.13

Applies to Distributions from:	Exception to 10% Early Withdrawal Penalty
Both Qualified Plans & IRAs	Death
Both Qualified Plans & IRAs	Attainment of age 59½
Both Qualified Plans & IRAs	Disability
Both Qualified Plans & IRAs	Substantially equal periodic payments (Section 72(t))
Both Qualified Plans & IRAs	Medical expenses that exceed 7.5% of AGI
Only Qualified Plans	**Qualified Domestic Relations Order (QDRO)***
Only Qualified Plans	Attainment of age 55 and separation from service
Only Qualified Plans	Public safety employee who separates from service after age 50
Only IRAs	Higher education expenses
Only IRAs	First time home purchase (up to $10,000)
Only IRAs	Payment of health insurance premiums by unemployed

Footnote to Accompany Exhibit 9.13 page 441:

Where there is a distribution at divorce and the payee is under 59 1/2, the use of a QDRO directed distribution will result in a taxable event, but will not incur the 10% early withdrawal penalty. Under the same circumstances except that the distribution is from an IRA, the result is both a taxable event and the application of the 10% early withdrawal penalty. However, the payee in any case can choose to rollover the distribution in which case the rollover rules would apply or the payee can take substantially equal periodic payments under Section 72(t).