To: P&G Employees
From: John B. Cornetet, CPA, J.D., CFP

Re: Change To P&G Plus by the Pension Protection Act of 2006

The recent Pension Protection Act of 2006 makes possible the rollover from a 401(k)/qualified plan into an IRA after the death of the owner. Under prior rules, 401(k) or qualified plan assets could not be rolled over by a non-spouse beneficiary once the owner died. This is true with the Procter & Gamble Plan. If the beneficiary of the PST is a child, Trust, or anyone other than a spouse, Procter makes the beneficiary take the plan assets and pay tax on them over the five-year rule. One of the benefits of rolling into an IRA during life was the IRA stretch out possibility. In an IRA, the beneficiary may use his or her life expectance to pay income tax on the IRA. This was not available to the beneficiary of the PST or P&G Plus.

Under the new law, a beneficiary may rollover plan assets into a decedent's IRA and then use the life expectancy method. The Trustee of a Trust also has the same option.

This provision takes effect for all distributions made after December 31, 2006.

EXAMPLE 1
On February 1, 2007, Mary Jones passes away, naming her son Jerry as sole beneficiary of her PST. On June 1, 2007, Jerry transfers his mother's PST to an inherited IRA for his benefit via a trustee-to-trustee transfer.

Under the new tax law, Jerry is permitted to make this post-mortem transfer to an inherited IRA for his benefit. He is now allowed to withdraw the IRA over his life expectancy.

EXAMPLE 2
Assume the same facts as Example 1, except that Mary named a trust, for the benefit of Jerry, as beneficiary of her PST. In this case, the trustee would be permitted to make a post-mortem trustee-to-trustee transfer of the PST into an inherited IRA for Jerry's trust's benefit.

Also remember the Bankruptcy Act of 2005, made rollover IRAs exempt from the claims of creditors.

Therefore, it is now a neutral decision as to whether a P&G retiree leaves assets in P&G Plus or rolls them into an IRA with respect to stretch out and creditor protection. Both now enjoy creditor protection and the ability to stretch out the income tax on the distributions to the beneficiary.

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