

PENSION PROTECTION ACT OF 2006 (PPA)

President Bush signed the Pension Protection Act of 2006 into law on August 17, 2006. At over 900 pages, this legislation introduces sweeping changes to current pension law. Outlined below is a brief summary of the legislation and its effect on plan sponsors and participants.

EGTRRA 2001 PROVISIONS MADE PERMANENT

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| Current Law | All of the provisions of the EGTRRA legislation related to the increased contributions were scheduled to sunset in year 2010. This would have meant: <ul style="list-style-type: none"> ▪ Employee Deferrals would return to a limit of \$10,500 from current level of \$15,000. ▪ Maximum profit sharing contribution percentage would return to 15% of \$170,000 from current limit of 25% of \$220,000. ▪ Maximum profit sharing contribution would return to \$30,000 from current level of \$44,000 ▪ The Roth 401(k) provision was scheduled to sunset in 2010. The PPA made the Roth 401(k) permanent which should encourage plan adoption. ▪ Catch-up contributions were not permitted prior to 2001. The PPA made the catch-up contribution (permits participants 50+ an extra \$5,000 deferral contribution in 2006) permanent. ▪ The EGTRRA legislation greatly eased the rollover hassle of the various types of qualified plans 401, 403(b), IRA and 457 plans |
| New Law | Made the EGTRRA limits permanent |
| Effective Date | Immediate |

AUTOMATIC ENROLLMENT SAFE HARBOR

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| Current Law | No Safe Harbor exists for plans that auto-enroll participants |
| New Law | The PPA legislation establishes a safe harbor for plans that meet certain requirements. Plans meeting these requirements will not be subject to ADP/ACP or top heavy testing that often places contribution limits on Highly Compensated Employees. The requirements are as follows: <ul style="list-style-type: none"> ▪ The default deferral percentage may not be less than 3% for the first year, 4% for the second year, 5% for the third year and 6% thereafter, not to exceed 10%. ▪ Participants must be given the opportunity to opt out or change the deferral amount. Also, "corrective distributions" (no penalty) may be made within the first 90 days of the auto-enrollment and treated as "erroneous" contributions. ▪ The Employer must provide either a non-elective contribution of 3% of pay or a matching contribution of 100% of the first 1% deferred plus a 50% match of the next 2% thru 6% deferred by participants. ▪ All Employer contributions must be fully vested after 2 years. ▪ All participants must receive a Notice that explains the Auto-Enrollment program, their rights, the default investment option and ability to opt out of the plan. The Notice must be provided within a reasonable period of time prior to the implementation of the deferral amounts. ▪ The legislation also importantly overrides any state wage laws that prohibit wage withholdings without the employee's permission. |
| Effective Date | The Safe Harbor will be effective beginning in 2008. The preemption of state wage laws is effective immediately. |

| DEFAULT INVESTMENT | |
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| Current Law | Currently, there is no protection afforded plan sponsors for selecting a default investment option for participants who are auto-enrolled or for participants who make no investment elections for Employer contributions. This has led many plan sponsors to select the most conservative option as the default option. |
| New Law | <p>The PPA provides for ERISA section 404(c) relief that protects fiduciaries from liability from the investment decisions made by participants. The protection from liability is available provided participants receive a Notice that explains the participant's rights and investment options and how the contributions will be default invested if investment instructions are not provided. The Notice must be provided within a reasonable amount of time prior to the enrollment date.</p> <p>Default Allocation Option: The Department of Labor has been asked to provide final regulations within six months on the appropriate allocation of a default option. The DoL ruling will likely provide an asset allocation model that is consistent with capital preservation with a combination of long term capital appreciation.</p> <p>Mapping: Prior law permitted 404c protection only when participants exercised investment control through affirmative election. New law will grant 404c protection in cases where participants are mapped if:</p> <ul style="list-style-type: none"> ▪ New investment option is "reasonable similar" to option being removed ▪ Participants receive Notice 30-60 days in advance of change and can direct to another investment option. |
| Effective Date | Effective in 2007 |

| PARTICIPANT INVESTMENT ADVICE | |
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| Current Law | Generally Plan Providers are not permitted to give investment advice regarding their own products |
| New Law | <p>The new legislation allows plan providers to provide investment advice to participants if the advice meets one of two tests:</p> <ul style="list-style-type: none"> ▪ The amount of revenue or fees received by the advice provider do not vary depending upon the investment options recommended, OR ▪ The advice provider uses a certified computer for the advice |
| Effective Date | Effective 2007 |

| VESTING REQUIREMENTS | |
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| Current Law | Current law permits employer matching contributions to be vested over a three year cliff or six year graded schedule. These minimum vesting schedules did not apply to other types of employer contributions |
| New Law | Under the new law, all Employer contributions will be subject to the same minimum vesting schedule of a three year cliff or six year graded option. |
| Effective Date | Effective in 2007 |

PPA PROVISIONS AFFECTING INDIVIDUAL TAXPAYERS:

| PPA INDIVIDUAL TAXPAYER BENEFITS | |
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| IRA Limits | The PPA made many of the enhanced contribution levels to IRAs permanent as well. IRA contribution limit will be \$4,000 in 2006, \$5,000 in 2008 and inflation adjusted thereafter. Also made catch-up IRA contributions permanent with \$1,000 additional contribution to IRA. |
| Roth Conversion | The Tax Increase Prevention and Reconciliation Act of 2005 signed into law in 3/06 eliminates the AGI ceiling of \$100,000 for conversion of traditional IRAs to Roth IRAs. This becomes available beginning in 2010. |
| Direct Roth Rollover | Participants can roll money directly from a qualified plan to a Roth instead of the current two step process of rolling to a traditional IRA and then converting it to the Roth. |
| 529 College Plans | The 529 Plan was introduced with the EGTRRA legislation in 2001 and has become the best option for saving for college. The tax benefits were supposed to sunset in 2010, but now have become permanent with the passage of PPA. |
| Charitable Funding | Distributions may be made directly from an IRA to a qualified charity. Limit of \$100,000 per year and must be age 70.5. Permitted through 12/31/07. |
| Conservation Easements | Under the new law, the deduction limits for qualified conservation easements are raised from 30% to 50% of AGI. Effective for 2006 and 07 only. |