



# Pension Protection Act Guide

Historic legislation passes—find out how it might affect you!

## INSIDE THE GUIDE

### PENSION PROTECTION ACT PROVISIONS THAT AFFECT:

#### Multiple Plan Types . . . . . 2

Learn more about topics that affect multiple plans including:

- EGTRRA permanence;
- Direct rollover to IRAs; and
- DB(k) plans.

#### Defined Benefit (DB) Plans . . . . . 6

If you sponsor a DB plan, learn about topics including:

- Extension of higher corporate bond rates and improved deductions for 2006-07; and
- New funding rules, including what you need to know to be eligible for transition rules.

#### Defined Contribution (DC) Plans . . . . . 16

If you sponsor a DC plan, learn about topics including:

- Automatic enrollment;
- Accelerated vesting; and
- EGTRRA permanence.

#### Employer Securities . . . . . 21

If you sponsor a qualified DC plan with publicly traded employer stock as an investment option, learn about topics including:

- Vesting; and
- The need to review plan design for investments and diversification.

#### Nonqualified . . . . . 22

If you sponsor a qualified DB plan, learn about topics including:

- How plan funding status may restrict your ability to directly or indirectly fund a nonqualified arrangement;
- Potential adverse tax consequences for certain key individuals; and
- New coverage and consent requirements when purchasing Corporate Owned Life Insurance (COLI). COLI is often used as a financing strategy for nonqualified deferred compensation plans.

#### Individual Investors . . . . . 23

As an individual investor, learn about topics including:

- Expanded rollover rules; and
- Increased IRA contribution limits.

The Pension Protection Act (PPA) was signed into law by President Bush on August 17, 2006, with a stated goal of strengthening employees' retirement security. While much of the legislation contains stricter defined benefit plan funding rules, it also has new rules for defined contribution plans, employer securities, and nonqualified plans.

This special guide to the PPA outlines many of the features of this legislation and summarizes how this may affect your organization and employees. The section is color-coded to help you find the changes that apply to:

- DB Plans – Both funding and nonfunding issues
- DC Plans
- Employer Securities
- Nonqualified Plans
- Individual Investors

Non-DB funding rule highlights of the PPA include providing statutory support for cash balance plans and for automatic enrollment in 401(k) and 403(b) plans, making permanent the multiple enhancements of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), and allowing for the creation of a combined DB and 401(k) plan, called the DB(k). While many changes are effective with plan years beginning in 2008, please use the guide to learn more about the immediate impact on your plan(s) and how you can best prepare to incorporate future requirements and optional designs into your strategy.

Visit [www.principal.com](http://www.principal.com) for updates and further guidance on the Pension Protection Act. As with past legislation, we're ready to discuss implications for you and your plan participants.

The Principal Financial Group® is prepared to help you navigate the details:

- We'll work with you to model future funding or examine a cash balance design.
- We'll work with you to project the costs of design changes or review industry statistics to help you identify your goals.

Bottom line: We're here to work with you and help you understand the impact of these changes.

# Provisions Applicable to Multiple Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>EGTRRA RULES</b>				
Economic Growth and Tax Relief Reconciliation Act (EGTRRA) Permanence	Immediately	<p>EGTRRA made significant changes to retirement plans in 2001 that were scheduled to expire in 2010. These included changes to:</p> <ul style="list-style-type: none"> <li>• Elective deferral limit</li> <li>• \$415 limit on contributions</li> <li>• Employer deduction limit</li> <li>• Catch-up contributions for participants age 50 or older</li> <li>• Expanded rollover opportunities</li> <li>• Roth contributions</li> <li>• Saver's Credit</li> <li>• S corporation Employee Stock Ownership Plan (ESOP) anti-abuse rules</li> <li>• Indexing of traditional IRA deduction limits</li> <li>• Indexing of income limits for Roth IRAs</li> <li>• Rollovers of employer after-tax contributions</li> </ul>	Makes the specified EGTRRA provisions permanent.	<ul style="list-style-type: none"> <li>• Increases in deduction, deferral, and contribution limits continue to make tax-qualified plans and IRAs a tax-effective choice for retirement savings opportunities.</li> <li>• Increases in limits can mean more opportunities for enhanced employee involvement and cost sharing for their retirement benefits.</li> <li>• Now is the time to evaluate plan goals and design. Do employees understand and appreciate what you are providing them? Are they taking full advantage of the opportunities given them?</li> <li>• Consider adding Roth contributions to your defined contribution plan.</li> </ul> <p><b>Note:</b> We can help you understand the impact of these changes and design a retirement program to meet your goals.</p>
Saver's Credit for Low and Moderate-income Workers	<p>Immediately</p> <p>Inflation indexing begins in 2007 taxable year</p>	<p>The Saver's Credit for IRA contributions or elective deferral contributions to 401(k), 403(b), or governmental 457(b) plan was to expire after the 2006 tax year.</p> <p>The maximum tax credit is \$1,000. The amount available for credit is tied to the individual's (non-indexed) adjusted gross income (AGI).</p>	Makes permanent the Saver's Credit, and beginning in 2007, the AGI levels eligible for the credit will be indexed.	<ul style="list-style-type: none"> <li>• Communicating this tax benefit to lower-income employees may encourage them to save for their retirement.</li> </ul> <p><b>Note:</b> We can help you update communication announcing this feature's permanency to participants in the proper income tax brackets.</p>

## Pension Protection Act Guide – Multiple Plan Types

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>PARTICIPANT NOTICES/COMMUNICATION</b>				
Notice and Consent	For years beginning on or after January 1, 2007	Notice of distribution options and required consents generally must be provided and obtained within 90 days prior to the commencement of a distribution or the annuity starting date.	The 90-day period is extended to 180 days. This applies to the 402(f) rollover notice, 411(a)(11) general consent rules, and the 417 QJSA notice.	<ul style="list-style-type: none"> <li>Employers now will have more time to provide notices and obtain consent forms from participants.</li> <li>We will work with our clients and update our forms and systems to take advantage of this welcome relaxation of deadlines.</li> </ul>
Benefit Statements	For plan years beginning on or after January 1, 2007 (delayed for collectively bargained plans)	Benefit statements with account balance and vesting information must be given to participants and beneficiaries upon request, but no more frequently than once every year.	<p>Defined contribution plans—quarterly benefit statements must be given to participants and beneficiaries in a qualified plan or ERISA 403(b) plan who have the right to diversify investments; otherwise, only annual statements must be given. These new format benefit statements must provide additional information relating to investment risk, for example, of the risk of holding more than 20 percent in a single investment.</p> <p>Defined benefit plans—participants must receive a benefit statement at least every 3 years (and upon request). An alternative option is to provide annual notice of the availability of a benefit statement.</p>	<ul style="list-style-type: none"> <li>Benefit statements must be fine tuned to comply with the new rules.</li> <li>Electronic disclosure appears to be an option to meet the notice requirements.</li> <li>We will work with you to make necessary adjustments to your statements.</li> </ul> <p><b>Note:</b> The DOL is directed to issue model benefit statements within 1 year of the date of enactment. We will continue to monitor the guidance.</p>
Electronic Display	Plan years beginning on or after December 31, 2007	The annual Form 5500 and related schedules are open for public inspection. A plan sponsor is allowed to file either electronically or on paper.	<p>Requires certain information to be filed electronically with the Department of Labor (DOL).</p> <p>The plan sponsor is required to display this information on an Intranet website for the employees to view.</p>	<ul style="list-style-type: none"> <li>We currently file a large number of Form 5500 filings in an electronic format with the DOL. We will continue to provide this service to our clients.</li> <li>You will need to ensure you make the information available to your employees by electronic means.</li> </ul>
<b>WITHDRAWALS/DISTRIBUTIONS/ROLLOVERS</b>				
Distributions to Active Duty Reservists	Retroactive to 2001	Withdrawals prior to age 59½ (age 55 if separated from service), death or disability generally are subject to a 10 percent early withdrawal penalty.	Reservists called to active duty from 9/11/01 – 12/31/07 are permitted to take a withdrawal without a 10% early withdrawal penalty. Amounts withdrawn may be repaid within 2 years from the date the reservists' active duty ends without regard to the contribution limits.	<ul style="list-style-type: none"> <li>Participants called to active duty may take penalty-free early distributions. Reservists should consult with their tax advisor if amounts were previously subject to a 10% penalty excise tax.</li> <li>We will update our distribution request communication and our taxation procedures to help you take advantage of the new rules as applicable.</li> </ul>
Qualified Joint and Survivor Annuity Options	For plan years beginning on or after January 1, 2008 (delayed for collectively bargained plans)	Generally, defined benefit and money purchase plans are required to provide benefits in the form of a qualified joint and survivor annuity. The annuity benefit provided to the surviving spouse can not be less than 50% of the lifetime annuity.	For defined benefit and money purchase plans, participants must be offered a new “Qualified Optional Survivor Annuity” – a joint annuity with a continuation of either 50% or 75% of the pre-death annuity. A plan must offer a 75% survivor annuity option if it currently has a survivor annuity option with less than 75% continuation, and a 50% survivor annuity option if it has only a survivor annuity option equal to or greater than 75%.	<ul style="list-style-type: none"> <li>An additional annuity option is required in DB and money purchase plans.</li> </ul> <p><b>Note:</b> We will work with you to determine if this is applicable to your plan.</p>

## Pension Protection Act Guide – Multiple Plan Types

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>WITHDRAWALS/DISTRIBUTIONS/ROLLOVERS</b> <i>continued</i>				
Transfer by Non-spouse Beneficiary	Effective for distributions on or after January 1, 2007	<p>Currently only a spouse can roll over his or her death benefit from a 401(a), 403(b), or governmental 457(b) plan to an IRA.</p> <p>Distributions for non-spouse beneficiaries must begin prior to 12/31 of the year following the participant's death or paid out entirely within 5 years.</p>	Benefits received by a nonspouse beneficiary may be directly transferred to an IRA from a 401(a), 403(b), or governmental 457(b) plan. The IRA is treated as an inherited IRA and must follow the minimum distribution rules of an inherited IRA.	<ul style="list-style-type: none"> <li>By expanding the group of individuals who can make rollovers to IRAs, this new rule will likely increase the number of rollover distribution requests.</li> </ul>
Direct Rollover to Roth IRA	Effective for distributions on or after January 1, 2008	Plan distributions from a qualified plan, 403(b), or governmental 457(b) plan may not be rolled over to a Roth IRA, but may be rolled over into a traditional IRA.	Allows plan distributions to be rolled over directly to a Roth IRA. The participant must pay tax on the taxable portion at the time of rollover. These rollovers are subject to the Roth conversion rules (maximum \$100,000 adjusted gross income).	<ul style="list-style-type: none"> <li>Simplifies the rollover process by allowing a participant to roll over directly to a Roth IRA rather than using a traditional IRA as a conduit.</li> </ul> <p><b>Note:</b> We will update our participant communication pieces to keep your participants fully informed.</p>
<b>GOVERNMENTAL RULES</b>				
Governmental Plans	August 17, 2006	<p>Qualified retirement plans maintained by a state or local government (including plans with cash or deferred arrangements) are exempt from the nondiscrimination and minimum participation requirements. Other governmental employers are subject to these requirements.</p> <p>Distributions from qualified retirement plans under 401(a), a qualified annuity plan under 403(a), a tax-sheltered annuity under 403(b), an eligible governmental 457(b), and individual retirement account (IRA) are generally included in income for the year distributed. Additionally, a distribution from a qualified retirement or annuity plan, or an IRA received before death, disability, or the attainment of age 59½ is generally subject to a 10% early withdrawal tax on the amount includable in income (unless an exception applies).</p>	<p>Exempts all governmental plans from the 401(a)(4) and 401(a)(26) nondiscrimination testing (currently, only state and local governmental plans are exempt). This will affect all plan years beginning after enactment.</p> <p>Directs Treasury to issue regulations allowing governmental plans to apply a reasonable good-faith standard to comply with the required minimum distribution rules.</p> <p>Permits retired or disabled public safety officers to elect tax-free distributions from a governmental retirement plan to pay for health and long-term care insurance (annual limit is \$3,000; applies to officers; applies only to direct payments from the retirement plan to the insurance company).</p>	<ul style="list-style-type: none"> <li>This may exempt you from performing certain nondiscrimination testing. If you are a governmental entity, we will work with you to determine the impact on your plan.</li> <li>We will help you provide communication to affected participants, as this allows a tax-free distribution for certain employees.</li> <li>We will keep you apprised of any additional guidance.</li> </ul>

## Pension Protection Act Guide – Multiple Plan Types

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>GOVERNMENTAL RULES</b> <i>continued</i>				
		Currently, governmental employers must satisfy minimum required distribution rules. However, current regulations are unclear that they satisfy the requirements if they comply with a reasonable good faith interpretation of the statutory requirements.		
Tribal Plans	Immediately	Governmental plans (plans established by a federal, state, or local government, or an instrumentality thereof) are subject to their own set of rules. No statutory authority clarified the status of Indian Tribal plans as a governmental plan.	Plans maintained by an Indian Tribal government will be treated as governmental plans if covered employees perform services in essential government services and not in the performance of commercial activities. For example, an Indian Tribal plan for teachers would be a governmental plan, while one for casino workers would not.	<ul style="list-style-type: none"> <li>Indian Tribal plans now will have certainty of their governmental or nongovernmental status.</li> </ul>
<b>MISCELLANEOUS</b>				
ERISA Bonding	For plan years beginning on or after January 1, 2008	The ERISA bond requirement is 10% of plan assets with a maximum of \$500,000.	The ERISA bond maximum is increased from \$500,000 to \$1 million for plans invested in employer securities. This requirement disregards employer securities held as part of a broadly diversified mutual or index fund.	<ul style="list-style-type: none"> <li>Since the minimum bond generally must be 10% of assets, this change affects all plans with more than \$5 million in assets holding individual employer securities as an investment.</li> </ul>
DB(k) Plans	For plan years beginning on or after January 1, 2010	Currently, a defined benefit plan and a defined contribution plan must be maintained as separate plans.	<p>Allows a combination DB and 401(k) plan that is:</p> <ul style="list-style-type: none"> <li>Exempt from the top-heavy rules</li> <li>Deemed to satisfy the ADP and ACP tests</li> <li>Funded through a single trust with a single plan document</li> <li>Files a single Form 5500</li> <li>Applicable to small employers with less than 500 employees when established</li> </ul> <p>The DB portion must provide:</p> <ul style="list-style-type: none"> <li>A benefit of at least 1% of final average compensation (not to exceed 5 year average) per year of service (maximum 20 years)</li> <li>100% vesting after 3 years of service</li> </ul> <p>The DB portion may utilize a cash balance formula that increases with a participant's age.</p> <p>The 401(k) portion must provide:</p> <ul style="list-style-type: none"> <li>Automatic enrollment with a 4% automatic enrollment salary deferral rate</li> <li>A matching contribution of 50% of at least 4% of pay</li> <li>Immediate vesting for the match</li> </ul> <p>A DB(k) plan may also allow non-elective contributions. Any non-elective contributions must vest after no more than 3 years.</p>	<ul style="list-style-type: none"> <li>We can discuss this plan design option to see if it may be of interest to you in the future.</li> <li>We will keep you updated on additional guidance if this plan design is of interest to you.</li> </ul>

## Pension Protection Act Guide – Multiple Plan Types

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>MISCELLANEOUS</b> <i>continued</i>				
Plan Amendments	2009 or 2011	Generally, plan amendments need to be completed by the end of the plan year; however, some amendments need completion before the effective date of the change. In addition, some required amendments may be signed by the end of the tax filing deadline.	Plans must be amended for the Pension Protection Act by the end of the 2009 plan year—governmental and collectively bargained plans by 2011—in order to avoid the anti-cutback rules.	<ul style="list-style-type: none"> <li>Plan documents must be updated by the IRS deadlines.</li> </ul> <p><b>Note:</b> The IRS needs to provide guidance and the required plan language before a plan can be amended for PPA. If we provide your document services, as we update your plan for EGTRRA, we will include available wording needed for PPA and will work with you by providing a draft of your document which you can review with your legal advisor and sign by the applicable deadline.</p>

## Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>DEFINED BENEFIT FUNDING RULE CHANGES (SINGLE EMPLOYER PLANS UNLESS NOTED OTHERWISE)</b>				
Minimum Funding Requirements	For 2006 and 2007 plan years	Prior to 2004, current liability was based on the 30-year Treasury rate. This changed for 2004 and 2005. The interest rate used for these plan years was based on a 4-year average of investment-grade long-term corporate bonds. Beginning in 2006, the interest rate would revert back to the applicable 30-year Treasury rate.	Extends the use of the 4-year average corporate bond rate to calculate current liability for 2006 and 2007.	<ul style="list-style-type: none"> <li>Current liabilities will be measured consistently with the method used for the past several years. The impact this will have on the current and future funding requirements for your plan will depend on your plan's current funded status.</li> <li>Certain transition rules and funding requirements effective in 2008 (see below) should be considered when determining the contribution level for the 2006 and 2007 plan years.</li> </ul> <p><b>Note:</b> 2007 funding levels also determine 2008 "at-risk" status (see "at-risk" provisions below.) Many plans may see an increase in required contributions in the short term, while well-funded plans may not be required to contribute. You may want to consider budgeting additional contributions for the 2007 plan year to lessen the impact this will have on the current and future funding requirements of your plan during the next valuation cycle.</p>
	For plan years beginning on or after January 1, 2008	Two-pronged approach that increases required contributions significantly when the funded status falls below the 90% level in 2 of the past 3 plan years.	<p>Contributions are based on a plan's Funding Target. The minimum required contribution is the sum of the target normal cost plus an amortization of the funding shortfall. This changes how credit balances are used and applied.</p> <p>Minimum Required Contributions:</p> <ul style="list-style-type: none"> <li>Equal to the plan's normal cost plus a 7-year amortization of the unfunded funding target liability of the plan measured under the new rules. Poorly funded plans will have to fund to the "at-risk" liability (see page 9).</li> <li>Plan assets under the new rules will be based on market value with permitted smoothing over 24 months. Smoothed assets must be within 10% of market value.</li> </ul>	<p><b>Note:</b> Generally, minimum contributions will be less predictable due to the volatility of the required interest rate assumptions. However, due to the relatively large deductible limits (see below), a stable funding pattern can be developed to meet your needs.</p>

## Pension Protection Act Guide – Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>DEFINED BENEFIT FUNDING RULE CHANGES</b> <i>continued</i>				
Funding Deductions	For taxable years beginning on or after January 1, 2006	<p>Deduct the greater of: the amount necessary to satisfy minimum funding requirements or the sum of the plan's normal cost for the year, plus the amount necessary to amortize unfunded liabilities (10 year amortization).</p> <p>The maximum deductible limit is not less than the unfunded current liability.</p> <p>For an employer with both a defined benefit and a defined contribution plan, the overall limit is the greater of: 25% of compensation for the plan year or the contribution necessary to meet the minimum funding requirement for the defined benefit plan or pension plan (not less than the amount of the plan's unfunded current liability).</p>	<p>DB plan deduction increased to allow a contribution up to 150% of the current liability. (140% for multiemployer plans)</p> <p>Beginning in 2006, the combined deduction limits for sponsors with both a defined benefit and defined contribution plan are eased. In 2006 and 2007, the first 6% of employer contributions to the defined contribution plan are not counted toward the 25% of compensation limit.</p>	<ul style="list-style-type: none"> <li>Increases the deductible limit significantly which will give you an opportunity to increase your plan's funded status. Contact your plan actuary or analyst if you would like to take advantage of these new higher limits.</li> <li>During your next valuation cycle, information will be provided to you so you can determine whether the deduction flexibility can be used to establish a long-term funding pattern that meets your needs.</li> </ul>
	For taxable years beginning on or after January 1, 2008		<p>Beginning with the 2008 plan year, the maximum tax deductible contribution for DB plans is increased to the greater of:</p> <ul style="list-style-type: none"> <li>The minimum required contribution.</li> <li>The normal cost plus 150% of the funding target plus future compensation increases (for final average pay benefit formulas) or benefit increases (for plans with benefit formulas not related to compensation) – plan assets (unreduced by credit balance).</li> <li>If the plan is not "at-risk," the normal cost plus funding target determined as if the plan were "at-risk" – plan assets (unreduced by credit balance).</li> </ul> <p>In 2008, the combined deduction limits for sponsors with both a defined benefit and defined contribution plan are eliminated for plans insured by the Pension Benefit Guaranty Corporation (PBGC).</p>	<ul style="list-style-type: none"> <li>For plans with benefit formulas based on final average compensations, the deductible limit can increase significantly, offering even more funding flexibility.</li> </ul> <p><b>Note:</b> The funding deduction rules should not affect tax exempt organizations.</p>
Basis for Measuring Liabilities (Funding Target)	For plan years beginning on or after January 1, 2008	Current liability is based on an interest rate between a 90% to 100% corridor of the 4-year weighted average of the corporate bond rates. Mortality table is based on IRS published rates.	<p>Target liabilities based on a 24-month average of corporate bond rates (top 3 quality levels) and a mortality table to be specified in Regulations.</p> <p>The rates will use 3 segments of the yield curve, for liabilities payable in the first 5 years, the next 15 years, and periods after that. A sponsor can elect to use the actual yield curve.</p> <p>Rate can be chosen as of the first day of the plan year, or up to 4 months in advance of the plan anniversary.</p>	<ul style="list-style-type: none"> <li>Target liabilities could be close to the current liability under current law, since the interest rates have risen over the past year and the yield curve is relatively flat. The new mortality basis may have a greater impact of increasing liabilities for predominantly male populations.</li> <li>The option to use the actual yield curve rather than the 3 segments could remove some volatility. We will help you to determine the best option for your plan during the next valuation cycle.</li> </ul>

## Pension Protection Act Guide – Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>DEFINED BENEFIT FUNDING RULE CHANGES</b> <i>continued</i>				
			Must fund for optional form of benefit, including lump sums.	<p><b>Notes:</b> Choosing a rate as of an earlier date can allow pre-plan year estimates for the upcoming year funded status, benefit restrictions, “at-risk,” and contribution requirements.</p> <p>Yield curves may increase liabilities marginally.</p>
Transition to New Minimum Contribution Rules	For plan years beginning on or after January 1, 2008	<p>Minimum required contribution is determined by comparing the results from an ongoing valuation and from the calculation of a deficit reduction contribution (DRC), which is based on current liability. DRC applies to plans that have over 100 participants and have a current liability ratio under 90% (or 80% if certain rules are met).</p> <p>Full funding limit – minimum required contribution is limited to the amount that liabilities exceed assets.</p> <p>Credit balances based on prior year contributions in excess of the minimum required contribution can be used to reduce the amount of the current year contribution.</p>	<p>Plans not subject to the deficit reduction contribution under current rules in 2007 may phase in the funding target for the 2008 plan year. Phase in of funding target: is:</p> <ul style="list-style-type: none"> <li>• 92% in 2008</li> <li>• 94% in 2009</li> <li>• 96% in 2010</li> <li>• 100% in 2011 and after</li> </ul> <p>Plans must be at the phase-in targets each year to continue to use the phase-in schedule; otherwise the following year funding target will be at 100%.</p> <p>Ability to use phase-in of new funding requirements is based on whether a plan had to calculate a DRC in 2007.</p> <p>Plans above 90% funded, or which had a gateway percentage above 90% for 2 consecutive years out of the preceding 3 plan years while still being above 80% in 2007, would meet that rule.</p> <p>Small plans (generally under 100 lives) are not subject to DRC calculations and would be allowed to use the phase-ins in 2008.</p>	<p>Funding to the phase-in targets will add additional funding flexibility, but may require substantial additional contributions in the short-term. During the next valuation cycle, we will:</p> <ul style="list-style-type: none"> <li>• Assist you in determining the recommended timing for plan contributions</li> <li>• Help you determine if funding the plan to the phase-in targets is feasible</li> <li>• Work with you to evaluate what impact the transition will have for your plan.</li> </ul> <p><b>Notes:</b></p> <ul style="list-style-type: none"> <li>• In order to take advantage of these significant phase-ins, you may want to consider additional contributions for the 2006 plan year to avoid the DRC in 2007</li> <li>• After 2007, you may want to consider funding to the phase-in milestones to continue to receive the advantage of the phase-ins</li> </ul>
Contribution Requirements	For plan years beginning on or after January 1, 2008	<p>A plan is exempt from quarterly contributions if in the current year it is at least 100% funded on a current liability basis in the prior year.</p> <p>If plan is subject to quarterly contributions, the amount of each quarterly contribution is 25% of the lesser of 100% of the prior year’s minimum required contribution or 90% of the current year’s minimum required contribution.</p> <p>Penalty for a late quarterly contribution is the greater of: 175% of the federal mid-term rate or the plan’s ongoing funding interest rate.</p>	<p>All plans that are not fully funded are required to contribute on a quarterly schedule effective for the 2008 plan year. Liquidity shortfall rules are unchanged by the new law.</p> <p>Contributions are due no later than 8½ months after the end of the plan year. Any amounts paid after the end of the plan year will be included in the current year valuation assets at a discounted value.</p> <p>The penalty for missed or late quarterly contributions is now significant.</p>	<p>Plans that have not been required to contribute during the plan year in the past may be required to, with the first contributions due by April 15, 2008, for a January 1, plan year. During the next valuation cycle, we will provide the information necessary to determine if your plan will be subject to the quarterly contribution schedule.</p>

## Pension Protection Act Guide – Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>DEFINED BENEFIT FUNDING RULE CHANGES</b> <i>continued</i>				
Credit Balances	For plan years beginning on or after January 1, 2008	A credit balance is created by contributions that exceed the minimum required contribution. Credit balances are allowed to be used without restriction to satisfy minimum funding requirements. Assets are not reduced by any credit balance in determining the funded status of the plan. The actuarial value of assets is not reduced by the plan's credit balance to determine if DRC rules apply.	<p>Credit balances under current law are maintained. Pre-funding balances can be built after 2008 with contributions in excess of the amount needed to avoid benefit restrictions. Balances can be used in the future to offset required minimum contributions, as long as a plan is at least 80% funded in the preceding year (reducing assets only for balances created after 2008).</p> <ul style="list-style-type: none"> <li>Balances are adjusted up or down each year based on the performance of plan assets in the preceding plan year.</li> <li>Balances are used to reduce plan assets in test for "at-risk," benefit restrictions and also for the calculation of the required minimum contribution.</li> <li>Balances can be voluntarily and permanently waived to avoid "at-risk" status and imposition of benefit restrictions.</li> </ul>	Funding flexibility is reduced and benefit restrictions may apply if your plan is funded under the 80% level. We will provide information as part of the annual valuation cycle to help you develop an appropriate strategy for whether the plan should elect to maintain or waive the credit balance.
Plan Assets	For plan years beginning on or after January 1, 2008	Plan asset smoothing is allowed (limited to the 5 most recent years). The asset values may not be less than 80% or more than 120% of the current market value as of the valuation date.	<p>Plan assets will be measured at market value, or averaged over a period no longer than 24 months.</p> <p>For most purposes, plan assets will be reduced by funding standard carryover balances (current rules credit balance) and pre-funding balances.</p>	<ul style="list-style-type: none"> <li>The immediate impact would depend on whether your plan currently uses an asset smoothing method and how close the smoothed value is to the current market value. Ongoing, the shorter smoothing period (24 months versus 5 years) will have some volatility to the funded status and resulting required contributions. Your plan actuary or analyst will work with you to assess which method to use for your plan based on your overall funding strategy.</li> </ul> <p><b>Notes:</b> Plans can elect to use a smoothing pattern or move to a pure market value approach.</p>
At-Risk Plans	For plan years beginning on or after January 1, 2008	No provision for "at-risk" plan.	<p>If a plan had 500 or fewer participants each day of preceding plan year, it is never considered "at-risk."</p> <p>Plans are deemed to be "at-risk" if they are below 80% funded under normal assumptions and below 70% using "at-risk" assumptions, both measured in the preceding year (assets are reduced for credit balances and pre-funding balances). The 80% test phases-in over 4 years, starting in 2008 at 65%.</p> <p>"At-risk" assumptions require liabilities to be calculated as if all participants who could elect to receive a benefit from the plan in the current year and the next 10 years elect to do so at the earliest possible time and in the most valuable optional form at that age. The effect of these assumptions is phased in over the first 5 years a plan is considered "at-risk."</p> <p>A loading factor of \$700 per participant plus 4% of the funding target, is also added if a plan has been "at-risk" in 2 of the previous 4 years.</p>	<ul style="list-style-type: none"> <li>Due to the phase-in rules, only severely underfunded plans initially should be affected. For the majority of the plans affected, the minimum contribution requirements will be higher. We will provide information to you during the next valuation cycle regarding your plan's funded status to determine if "at-risk" status is a possibility and, if so, the ramifications.</li> </ul> <p><b>Notes:</b> Plans that do not offer subsidized early retirement or subsidized optional forms should not see a large impact from "at-risk" assumptions</p> <p>"At-risk" designation immediately affects the funding and taxation rules for nonqualified deferred compensation plans</p> <p>Credit balances may be waived to avoid the "at-risk" designation.</p>

## Pension Protection Act Guide – Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>DEFINED BENEFIT FUNDING RULE CHANGES</b> <i>continued</i>				
Benefit Restrictions	For plan years beginning on or after January 1, 2008	<p>Provides limitations on plans with more than 100 participants—may not be amended to increase benefits if the plan’s funded current liability percentage is less than 60% (which takes into account the amendment), unless the plan sponsor provides security or will fund the increase.</p> <p>Plan sponsors in bankruptcy generally cannot increase benefits until the plan sponsor emerges from bankruptcy.</p> <p>Limitations on benefit increases will apply if a funding waiver or amortization extension is in effect.</p> <p>Plans with a liquidity shortfall under the quarterly contribution requirement cannot pay benefits in any form other than a single life annuity.</p>	<p>Plans below 60% funded are required to freeze benefit accruals, cease paying lump sums, and cease triggering of shutdown benefits, unless contributions are made immediately to raise plan’s funding percentage above 60%.</p> <p>Plans below 80% funded are prohibited from increasing benefits (unless immediately funded), and are permitted to pay no more than 50% of a participant’s benefit (to a maximum of the PBGC guaranteed benefit) as a lump sum.</p> <p>Plans where benefits are not tied to pay can still increase benefits, as long as the increases are not larger than the pay increases made during the same period for the people affected by the amendment.</p> <p>Plans with bankrupt sponsors are prohibited from paying lump sums unless the plan is fully funded.</p> <p>Plans funded at 100% using the full value of plan assets (not reduced for the funding standard carryover balance or the pre-funding balance) are not required to reduce asset by any pre-funding or funding standard carryover balances. The 100% is phased in, with a 92% target used for 2008, grading up to 100% in 2011. Plans must be at the phase-in targets each year to continue to use the phase-in schedule; otherwise the following year funding target will be at 100%.</p> <p>Special rules delay the effective date of these restrictions for collectively bargained plans: for plans where the bargaining agreement was ratified before January 1, 2008, the restrictions are delayed until the earlier of the end of the bargaining agreement or January 1, 2010.</p>	<p>Depending on your plan’s funded status, your plan could be affected. However, you will have time to remedy the situation annually during the valuation review process when your plan actuary will review the current funded status with you and help you determine if you want to make additional contributions or waive credit balances to avoid these restrictions. If your funded status is close to one of these thresholds, as determined in your most recent actuarial valuation report, you may want to budget for additional contributions in 2007.</p> <p><b>Notes:</b> If your plan offers lump sum options, we will need to pay special attention to avoid the negative employee relations impact of lump sum elimination—communicate impact effectively.</p> <p>If your plan is not tied to pay, it can still increase benefits up to the level of their pay increases for the same group, even if they would otherwise be subject to amendment restrictions.</p> <p>If applicable, collective bargaining agreements already in place can be honored through the end of the agreement.</p> <p>Having close administrative relationships between your plan actuary and your benefit administrator will be crucial to monitor communications and benefit restrictions and to ensure your plan remains in compliance.</p>
Timing of Valuations	For plan years beginning on or after January 1, 2008	The valuation date may be any date during the plan year.	<p>Plans with more than 100 participants must use the first day of the plan year.</p> <p>Plans with 100 or fewer participants may choose any day of the plan year.</p> <p>For the purpose of benefit restrictions, plans are deemed to be the same funding percentage they were in the prior year until the valuation work is done.</p> <ul style="list-style-type: none"> <li>• If the plan was within 10 percentage points of being limited in the prior year, they are presumed to drop those 10 points unless the valuation work is completed by April 1 (for a January 1 plan year).</li> <li>• If a plan was restricted in the preceding year, it is assumed to remain restricted for the full plan year unless the valuation work is completed by October 1 (for a January 1 plan year).</li> </ul>	<ul style="list-style-type: none"> <li>• Providing data to us very quickly after the plan anniversary is especially critical to prevent restrictions on plan amendments or a potential freeze of benefit accruals, if your plan is within 10 percentage points of being limited in the prior year.</li> </ul>

## Pension Protection Act Guide – Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>PENSION BENEFIT GUARANTY CORPORATION (PBGC) PREMIUMS</b>				
PBGC Variable Premiums	For plan years beginning on or after January 1, 2008	<p>An underfunded plan is required to pay both a flat-rate premium of \$30 per participant and a variable rate premium of \$9 per \$1,000 of unfunded vested benefits. Note: the Deficit Reduction Act of 2005 increased the flat-rate premium from \$19 to \$30.</p> <p>Plans at the full funding limit are not required to make the variable rate premium.</p>	<p>Eliminates the full funding limit exception for the variable rate premium effective with the 2008 plan year.</p> <p>Uses the same basis to determine pension plan liability, except uses a spot interest rate, not smoothed over 24 months. Assets are valued at fair market value and credit balances are not subtracted from assets in determining underfunding.</p>	<ul style="list-style-type: none"> <li>The elimination of the full funding exemption may increase the total premiums you need to pay annually to the PBGC if your funded status is less than 100%. More information will be provided to you during the next valuation cycle.</li> </ul> <p><b>Notes:</b> Premiums are likely to increase for underfunded plans.</p> <p>Premiums may increase for plans where asset losses had been deferred through an asset smoothing method.</p>
PBGC Premiums	For plan years beginning on or after January 1, 2006	<p>The Deficit Reduction Act of 2005 put a special premium in place for plans that terminated in bankruptcy. \$1,250 per participant is required for three years after a company emerges from bankruptcy reorganization. The provision was scheduled to expire at the end of 2010.</p>	<p>Makes the 3-year bankruptcy premium payment provision permanent.</p>	<ul style="list-style-type: none"> <li>Applies to plan sponsors who recover from bankruptcy after terminating their DB plan on a distress termination basis.</li> </ul>
PBGC Premiums: small plans	For plan years beginning on or after January 1, 2007	<p>No provision addressing small plans.</p>	<p>The per-participant fee will be \$5 for employers with 25 or fewer plan participants. The variable premium for these employers will also be capped. The variable portion is equal to the number of participants x \$5 x number of participants. Thus, for a plan with 20 participants, the premiums will be as follows:</p> <p>a.) The per participant fee will be \$100, and  b.) The variable premium will be \$2,000 (20 x \$5 x 20).</p>	<ul style="list-style-type: none"> <li>This provides a break in PBGC premiums for small employers.</li> </ul>
Shutdown Benefits	July 26, 2005	<p>Defined benefit plans may provide for shutdown benefits (as well as other unpredictable contingent events) without restriction or impact on PBGC guaranteed benefits.</p>	<p>For PBGC guarantee purposes, shutdown benefits that are triggered by an event after July 26, 2005, will be phased in as though the triggering event date was the effective date.</p>	<ul style="list-style-type: none"> <li>Reduces the liability for PBGC in distress termination filings</li> </ul>

## Pension Protection Act Guide – Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>REPORTING, DISCLOSURE, AND NOTICE REQUIREMENTS</b>				
Disclosures	For plan years beginning on or after January 1, 2008	<p>Plan participants and beneficiaries must be provided with a summary annual report (SAR). The SAR contains basic information about the plan's financial condition and activities. The SAR must be provided within 2 months after the due date of the annual report.</p> <p>Section 4011 Notice – certain underfunded plans are currently required to provide this notice to plan participants and beneficiaries.</p>	<p>Repeals the SAR and Section 4011 Notice for defined benefit plans.</p> <p>The new notice requires a number of new disclosures (including but not limited to):</p> <ul style="list-style-type: none"> <li>• Annual DB funding notice (similar to the current multiemployer funding notice). The notice is due 120 days after the end of the plan year for single-employer plans with more than 100 participants. Small plans can furnish the notice at the time the Form 5500 is filed.</li> <li>• Provide the PBGC with information currently required under Section 4010 if the plan's funding percentage was less than 80% for the preceding year.</li> </ul> <p>Every plan will now be required to provide the notice.</p>	<ul style="list-style-type: none"> <li>• This requires that additional information be disclosed to your plan participants and beneficiaries.</li> <li>• We will inform you of the new disclosure requirements and provide you with the necessary information and forms.</li> </ul>
Electronic Display	Plan years beginning on or after December 31, 2007	The annual Form 5500 and related schedules are open for public inspection. A plan sponsor is allowed to file either electronically or on paper.	<p>Requires certain information to be filed electronically with the Department of Labor.</p> <p>The plan sponsor is required to display this information on an Intranet website for the employees to view.</p>	<ul style="list-style-type: none"> <li>• We currently file a large number of Form 5500 filings in an electronic format with the DOL. We will continue to provide this service to our clients</li> <li>• You will need to make sure you can make the information available to your employees by electronic means.</li> </ul>
<b>MISCELLANEOUS CHANGES</b>				
415 Limit Changes	Limitation years beginning on or after January 1, 2006	<p>In calculating the 3-year highest average compensation, only compensation earned with the employer while the employee is an active participant can be considered.</p> <p>States what interest rate and mortality table is used to normalize a lump sum back to straight life for purposes of testing 415.</p>	<p>Reverses the rule in proposed IRS regulations on 415 limits. Keeps the current rule that allows average compensation that is used to determine the 415 limits - include years of service during which an employee is not a participant in the plan.</p> <p>For church plans, the compensation limit only applies to highly compensated employees.</p> <p>Changes which interest rate is used (greatest of) to limit any form of benefit subject to 417(e)(3).</p>	<ul style="list-style-type: none"> <li>• We will apply the new rules to the annual 415 limits testing.</li> </ul>
Lump Sum Distributions	Plan years beginning on or after January 1, 2008	The minimum lump sum distribution value is calculated using the 30-year Treasury rate (Code Section 417(e)) and the 1994 GAR mortality table.	<p>Replaces the current 30-year Treasury rate used to calculate minimum lump sum benefits, and certain other optional forms, with interest rates derived from a modified yield curve.</p> <ul style="list-style-type: none"> <li>• Treasury will develop the mortality table, and it will be the same table used to measure funding liabilities.</li> <li>• The new rates will be phased in over 5 years (20% per year) beginning in 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• The change in the interest rate will likely decrease the lump sum distribution payable to many of the plan participants. The phase-in of this change over a 5-year period is intended to make this change gradually.</li> <li>• The mortality table could potentially increase the lump sum distribution payable to a plan participant.</li> </ul>

## Pension Protection Act Guide – Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>MISCELLANEOUS CHANGES</b> <i>continued</i>				
Phased Retirement	Plan years beginning on or after January 1, 2007	In general, payments from pension plans may not be made until the later of an employee's termination of employment or the attainment of normal retirement age.	Permits a pension plan to allow in-service distributions to a participant who has reached age 62, even if normal retirement age is past age 62.	<ul style="list-style-type: none"> <li>• With today's work environment, you may want to consider utilizing this provision to allow employees to access their retirement funds while still employed. This provides a gradual transition for some employees leaving the workforce.</li> <li>• We can work with you to determine if you want to allow phased retirement in your plan.</li> </ul>
Transfers to Retiree Health Plans	August 17, 2006	Generally, pension plan assets can't revert to the employer prior to a plan termination and satisfaction of all plan liabilities. Although, excess pension plan assets may be transferred to a separate account in the pension plan to be used to pay qualified current retiree health liabilities on a year-by-year basis. Participant accrued benefits in the pension plan must become 100% vested. Generally, such transfers are limited to the lesser of pension plan assets in excess of 125% of current liability (using pre-PPA funding rules) or the retiree health liability for the year. If such transfers are not used to pay retiree health benefits in the year of the transfer, any excess must be transferred back to the pension plan and a reversion tax is applied.	Continued excess assets defined as amounts in excess of 125% of end of funding target plus target normal cost. Assets are reduced for credit balances.	<ul style="list-style-type: none"> <li>• If you are considering this option for your defined benefit plan, please contact us to discuss.</li> </ul> <p><b>Note:</b> Extends this little-used provision to allow sponsors with well-funded plans a way to reallocate excess plan assets without terminating the plan.</p>
<b>HYBRID PLANS</b>				
Hybrid Plans – Whipsaw	June 29, 2005	A lump sum distribution under a cash balance plan may not be less than the present value of the participant's account converted to an annuity commencing at NRA (present value determined using 30 year Treasury). If the plan's interest crediting rate exceeds the 30-year Treasury, the plan is required to pay a lump sum benefit that is greater than the participant's account balance. This is commonly referred to as "Whipsaw."	"Whipsaw" is eliminated provided certain requirements are met, as the accrued benefit is defined as the account balance. This was effective June 29, 2005.	<ul style="list-style-type: none"> <li>• Most plan sponsors have designed around this provision, so there should be little immediate impact.</li> <li>• The main impact is to clear the way for higher interest rate credits once IRS defines "market rate of return."</li> </ul>

## Pension Protection Act Guide – Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>HYBRID PLANS</b> <i>continued</i>				
Hybrid Plan Provisions – Conversions	June 29, 2005	No guidance or provision.	<p>Conversions after June 29, 2005, must meet a minimum standard. Generally, the benefit in place before the conversion is preserved, with the cash balance providing additional accruals immediately.</p> <p>Early retirement subsidies are preserved to the extent they are earned at retirement date.</p>	<ul style="list-style-type: none"> <li>• If you have considered converting your traditional defined benefit plan to a cash balance plan, now is the time to take steps to pursue that option. PPA legitimizes the cash balance plan design. We will work with you to determine if a cash balance plan meets your needs.</li> <li>• Provides the method to convert your traditional defined benefit plan to a hybrid plan. This approach is commonly described as A+B, and is designed to eliminate the possibility that participants will have a period of no benefit accrual after a conversion.</li> <li>• Plan sponsors who have not yet converted to cash balances will have a much easier time doing so. Elimination of age discrimination and “Whipsaw” will make plan design much easier.</li> </ul>
Hybrid Plan Provisions – Age Discrimination	August 17, 2006	A defined benefit plan may not reduce the rate of benefit accruals or cease benefit accruals because of the attainment of any age.	Age discrimination protection is prospective, as long as the pay credit to any individual is the same as any younger individual with like pay and service. This was effective August 17, 2006.	<ul style="list-style-type: none"> <li>• If you have a hybrid plan, we will review the pay credits (if applicable) utilized for your plan. If changes are needed we will then discuss options with you.</li> </ul> <p><b>Note:</b> Along with the recent IBM court decision, this removes a major source of plan sponsor discomfort with using the cash balance plan design.</p>
Hybrid Plan Provisions – Vesting	Varies according to the establishment date of the plan	Defined benefit plans are required to utilize a vesting schedule that does not exceed either a 5-year cliff or a 7-year graded schedule (20% per year).	<p>Vesting is 3-year cliff. It is not clear if the new vesting requirements apply to existing balances or only new benefit accruals.</p> <p>Effective dates:</p> <ul style="list-style-type: none"> <li>• For plans in existence on June 29, 2005, the effective date is for plan years beginning on or after January 1, 2008.</li> <li>• For plans established after June 29, 2005, the effective date is retroactive to June 29, 2005.</li> </ul>	<ul style="list-style-type: none"> <li>• If you currently utilize a hybrid plan, you may need to amend the vesting schedule in order to conform to this new requirement. We will review your plan’s current vesting schedule and provide additional guidance.</li> <li>• If you are considering converting or starting a new hybrid plan, you will need to meet the new vesting schedule requirement.</li> </ul> <p><b>Note:</b> Reduction of vesting period will result in slightly higher PBGC premiums and cash payments from the plan.</p>
Hybrid Plan Provisions – Interest Rates	Varies according to the establishment date of the plan	No guidance or provision.	<p>Interest rates can now be credited up to a market rate of return effective January 1, 2008, for existing plans. A minimum interest rate is provided, such that negative interest can be credited as long as the sum of pay credits is not reduced.</p> <p>Effective dates:</p> <ul style="list-style-type: none"> <li>• For plans in existence on June 29, 2005, the effective date is for plan years beginning on or after January 1, 2008.</li> <li>• For plans established after June 29, 2005, the effective date is retroactive to June 29, 2005.</li> </ul>	<ul style="list-style-type: none"> <li>• We will work with you to review what interest rates your hybrid plan currently uses.</li> <li>• Using a market rate of interest will increase costs to you, but will make the plans more attractive to participants familiar with the rates of return in defined contribution plans.</li> </ul>

## Pension Protection Act Guide – Defined Benefit Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>MULTIEMPLOYER PLANS</b>				
Multiemployer Plans – Funding and Deductions	For plan years beginning on or after January 1, 2008 (except where noted)	Generally, multiemployer defined benefit plans follow similar funding rules as single employer defined benefit plans	<p>Defined benefit plan deduction increased to allow a contribution up to 150% of the current liability (140% for multiemployer plans). Effective for plan years beginning on or after January 1, 2006.</p> <p>Funding rules for multiemployer plans are retained, but the amortization periods for plan changes are shortened from 30 years to 15 years.</p> <p>Short-term benefits like 13th checks must be fully funded to be paid out.</p> <p>Multiemployer plans meeting certain requirements can get a 5-year extension.</p>	<ul style="list-style-type: none"> <li>• If you intend to make plan changes, the amortization period cannot exceed 15 years.</li> <li>• Increases funding deduction.</li> <li>• The funded status of the plan affects the ability to provide 13th checks.</li> </ul>
Multiemployer Plans – Funding Problems	For plan years beginning on or after January 1, 2008	Multiemployer pension plans that experience financial difficulty may apply for up to a 10-year extension of amortization periods. No specific law addressing critical or endangered plan status. However, additional funding rules could apply to pension plans that are insolvent or in reorganization	<p>New rules are associated with multiemployer plans categorized as endangered, seriously endangered, or in critical status. The provision attempts to address some of the most underfunded and troubled multiemployer plans.</p> <p>Plans must review a projection of financial status annually. If problems appear, employers and unions must take certain actions to correct problems. These include notices to all participants and employers and developing a plan addressing benefits and contributions to reduce underfunding. For critical status plans, this includes required additional contributions and potentially a temporary freeze on benefit improvements.</p>	<ul style="list-style-type: none"> <li>• We will help you determine if your multiemployer plan is categorized as a special status plan. If so, we will discuss additional details and requirements associated with the provision.</li> </ul>
Multiemployer Plans – Withdrawal Liability	For plan years beginning on or after January 1, 2008	Generally upon withdrawal from a multiemployer pension plan, an adopting employer is required to fund its share of any unvested benefits. Many special rules and exceptions apply, depending on actual facts and circumstances.	Withdrawal liability rules are changed. Repeals the limitation on withdrawal liability of insolvent employers and updates the rules to use the net worth of a company. Addresses rules associated with contracting work.	<ul style="list-style-type: none"> <li>• This may have an impact on certain situations. As needed, we will help you determine if this has (or will have) any impact on any companies in your multiemployer plan.</li> </ul>
Multiemployer Plans – Disclosures	For plan years beginning on or after January 1, 2007	Annual funding notices for multiemployer pension plans are required to be provided to all participants, union representatives, contributing employers, and the PBGC, including various benefit and financial information.	<p>Notice and disclosure requirements are changed or expanded. This should make information about the status of the plan more easily available for all companies.</p> <p>Notices must be given by 120 days after the plan year-end.</p>	<ul style="list-style-type: none"> <li>• If you are a multiemployer plan, this will most likely require you and other companies to provide additional information in both the required notices and disclosures.</li> </ul>

**Note:** For funding issues, please consult with your plan actuary or actuarial analyst. They can assist you if you need more detailed information specific to your plan, including projections or forecasting related to both the near term or long term impact of the funding on your plan.

If any of the items noted above involve services we provide to you, we will automatically follow through with the necessary changes. For example, if your plan document needs to be updated within a specified time, we will contact you and make sure your document is updated in a timely fashion.

# Defined Contribution Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>EGTRRA RULES</b>				
Deduction Limits – Combined Plan Limits	For taxable years beginning on or after January 1, 2006 (certain provisions not effective until January 1, 2008)	<p>Combined deduction limit for a defined benefit and defined contribution plan is the greatest of the following</p> <p>25% of participants' compensation; The minimum funding requirement under the defined benefit plan or</p> <p>If the Deficit Reduction Contribution rules apply, the amount needed to bring the plan to 100% of current liability.</p>	For 2006 and 2007, employers can deduct a contribution to a defined contribution plan up to 6% of participants' compensation, regardless of the contribution to the defined benefit plan. Beginning in 2008, contributions to a defined benefit plan covered by the PBGC are not taken into account in determining the combined plan limit.	<ul style="list-style-type: none"> <li>Congress has now stopped penalizing employers who maintain both DB and DC plans.</li> </ul> <p><b>Note:</b> If you have combined DB and DC plans with us, we can help you take advantage of this opportunity. If not, we can help you enhance your retirement program by adding a DB or other type of plan.</p>
<b>AUTOMATIC ENROLLMENT</b>				
Automatic Enrollment  ERISA Pre-emption of State Payroll Laws	Immediately	Legal questions arose as to the application of state laws to automatic enrollment without employees' consent.	<p>Pre-empts any state law that would prohibit or restrict automatic enrollment. (An annual notice must be given to participants and the DOL default investment requirements must be met.)</p> <p><b>Note:</b> Pre-emption only applies to ERISA covered plans. Governmental, non-ERISA 403(b), and non-electing church plans are not provided this protection.</p>	<ul style="list-style-type: none"> <li>Eases concerns over the legality of 401(k) plan automatic enrollment.</li> <li>If you currently have automatic enrollment, your annual notice may need to be revised.</li> </ul> <p><b>Note:</b> We will soon have sample language available to help you update this notice.</p>
Automatic Enrollment Corrective Distribution	For plan years beginning on or after January 1, 2008	There is no statutory basis for making corrective distribution of elective deferrals from automatic enrollments in a 401(k), 403(b), or governmental 457(b) plan.	<p>Plans with automatic enrollment <i>may</i> allow employees who were late making their deferral elections to receive a corrective distribution of their deferrals plus earnings within 90 days after the first payroll period of automatic enrollment. The corrective distribution must be made within 90 days after the first payroll period with automatic enrollment, is taxed in the year of receipt, and is not subject to the 10% early withdrawal penalty.</p> <p>Deferral contributions distributed are not included in the ADP test or in the overall 402(g) deferral limit. In addition, any attributable employer match must be forfeited and is not included in the ADP or ACP test if applicable. (403(b) plans are not subject to ADP testing).</p>	<ul style="list-style-type: none"> <li>Distributions may now be made to employees who, soon after automatic enrollment, decide not to participate in the plan.</li> </ul>
Easing of Nondiscrimination Testing Refund Rules with Automatic Enrollment	For plan years beginning on or after January 1, 2008	<p>Plans* which do not correct ADP or ACP test failures within 2½ months after the end of the plan year are subject to a 10% penalty.</p> <p>* (ADP testing N/A to 403(b) plans.)</p>	<p>Refunds to correct ADP/ACP test failures for certain non-Safe Harbor automatic enrollment plans must be made within 6 months after plan year-end to avoid the 10% penalty.</p> <p>Gap period earnings need not be credited on corrective distributions from:</p> <ul style="list-style-type: none"> <li>Eligible auto-enrollment plans, made within 6 months from plan year-end.</li> </ul>	<ul style="list-style-type: none"> <li>More time to test and make refunds.</li> <li>Elimination of gap period earnings means less complexity.</li> </ul> <p><b>Note:</b> If we conduct the testing, we will automatically update our systems and procedures in 2008. We also will update communications that accompany the refunds.</p>

## Pension Protection Act Guide – Defined Contribution Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>AUTOMATIC ENROLLMENT</b> <i>continued</i>				
		<p>Refunds from failed actual deferral percentage (ADP) &amp; actual contribution percentage (ACP) testing must include earnings through the date the excess is refunded (“gap period earnings”).</p> <p>In general, refunds paid within 2½ months of the plan year are taxed in the year originally contributed. Refunds after 2½ months from the end of the plan year are taxed in the year distributed.</p>	<ul style="list-style-type: none"> <li>• Non-eligible plans, made within 2½ months from plan year-end.</li> </ul> <p>All refunds are taxed in the year of distribution.</p>	
Automatic Enrollment Safe Harbor	For plan years beginning on or after January 1, 2008	<p>Unless a 401(k) Safe Harbor plan (ACP Safe Harbor plan if 403(b)), plans are subject to ADP and ACP testing.</p> <p>Current Safe Harbor rules require 100% vesting in a required employer contribution generally of at least 3% of compensation if a non-elective contribution of at least 4% of compensation if a match contribution. And, eligible employees must receive a written notice of their rights and obligations.</p>	<p>Plans that follow the optional Safe Harbor* are:</p> <ul style="list-style-type: none"> <li>• Deemed to satisfy ADP/ACP tests</li> <li>• Not subject to the top-heavy rules</li> </ul> <p>The default elective deferral rate must be at least the following percent of compensation, not in excess of 10%:</p> <ul style="list-style-type: none"> <li>• 3% 1st year of auto deferral arrangement</li> <li>• 4% 2nd year</li> <li>• 5% 3rd year</li> <li>• 6% 4th year</li> </ul> <p>(Employers may exempt current employees that have a deferral election (including an election not to defer) from automatic enrollment.</p> <p>An employer must make either a:</p> <ul style="list-style-type: none"> <li>• Nonelective contribution for all eligible non-highly compensated employees (NHCEs) of at least 3% of compensation, or</li> <li>• Match for NHCEs of 100% of deferrals up to 1% of compensation, plus 50% on the next 5% (maximum match of 3½% of pay).</li> </ul> <p>The match and nonelective contributions must be vested within 2 years. Each eligible employee must receive a written notice. Elective deferrals for employees who don’t select their own investments are placed in a default investment.</p> <p>A plan with auto-enrollment but not the Safe Harbor design must conduct ADP/ACP tests. A plan with auto-enrollment may follow the 401(k) Safe Harbor rules instead of the auto-enrollment Safe Harbor rules and still avoid ADP testing.</p> <p>* 403(b) plans are not subject to the ADP testing or top-heavy rules. However, this Safe Harbor provision will allow a 403(b) plan to become an ACP Safe Harbor plan.</p>	<ul style="list-style-type: none"> <li>• This additional Safe Harbor method avoids nondiscrimination testing but without the immediate 100% vesting of the original Safe Harbor.</li> <li>• Employers previously reluctant to adopt Safe Harbor designs because of immediate vesting may now wish to consider Automatic Enrollment Safe Harbor.</li> </ul> <p><b>Note:</b> We can help you with this evaluation and employee communications, and evaluation of default investment options.</p>

## Pension Protection Act Guide – Defined Contribution Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>AUTOMATIC ENROLLMENT</b> <i>continued</i>				
Notice Requirements	For plan years beginning on or after January 1, 2008	Under the current ADP/ACP Safe Harbor option, each eligible employee must receive a written notice between 30-90 days before the beginning of each plan year. New participants throughout the year also must be given this notice.	<p>To qualify for the new Automatic Enrollment Safe Harbor design, plans generally must cover all eligible employees and they must be able to opt-out at any time.</p> <ul style="list-style-type: none"> <li>• Within a reasonable time before each plan year, notice must be furnished to all eligible employees that explains their opt out rights and how contributions will be invested if no participant investment direction is given.</li> <li>• After the receipt of notice, the employee must have a reasonable amount of time to make contribution and investment elections before the first contribution is made.</li> </ul>	<ul style="list-style-type: none"> <li>• The new Automatic Enrollment Safe Harbor (like the current Safe Harbor) requires proper notification/communication to employees.</li> </ul> <p><b>Note:</b> We can help provide sample language.</p>
<b>INVESTMENTS</b>				
Default Investment options ERISA 404(c) Relief	For plan years beginning on or after January 1, 2007	DOL Section 404(c) rules do not provide protection from participants who fail to make an affirmative investment election. This is a concern with automatic deferral plans.	<p>Section 404(c) protection is offered to plan sponsors for participants who fail to make an affirmative election if the contributions are invested in a default investment option which meets the DOL's Safe Harbor guidelines and participants are notified annually of their rights to the different investment options.</p> <p>The Secretary of Labor is directed to issue final regulations within 6 months giving Safe Harbor guidance on appropriate default investment options that include "a mix of asset classes consistent with capital preservation or long-term capital appreciation, or a blend of both."</p> <p>These rules apply to plans subject to ERISA and exclude non-ERISA 403(b), governmental plans and non-electing church plans.</p>	<ul style="list-style-type: none"> <li>• This provides previously lacking statutory relief for automatic enrollment plans.</li> <li>• Current default investment options will need to be evaluated once DOL guidance is issued.</li> </ul> <p><b>Note:</b> We will keep you apprised of additional guidance and help guide you through any needed evaluation.</p>
Investment Advice	For plan years beginning on or after January 1, 2007	<p>Plan sponsors with investment advisers must prudently select and continually monitor them.</p> <p>Plan sponsors could be held liable for the fiduciary breaches of these advisers.</p>	<p>Provides a prohibited transaction exemption for advice from a fiduciary adviser to DC plan participants under an "eligible investment advice arrangement."</p> <p>A fiduciary adviser may be:</p> <ul style="list-style-type: none"> <li>• Registered investment adviser</li> <li>• Bank</li> <li>• Insurance Company</li> <li>• Broker dealer</li> <li>• Employees, agents, or registered representatives and affiliates of the above.</li> </ul> <p>An eligible investment arrangement must:</p> <ul style="list-style-type: none"> <li>• Provide that the fees received by the fiduciary adviser do not vary in accordance with the investment options chosen; or</li> <li>• Use a computer model meeting specified conditions; and</li> <li>• Compensation for the advice must be reasonable; and</li> <li>• Fees and affiliations must be disclosed prior to the time the advice is provided; and</li> <li>• Advisers must obtain an annual exemption compliance audit from an independent auditor.</li> </ul>	<ul style="list-style-type: none"> <li>• Provides a statutory framework for employers to provide personalized investment advice to participants.</li> <li>• Beginning in 2007, plan sponsors are given some relief from the specific advice provided by the advisers as long as specified requirements are met</li> </ul> <p><b>Note:</b> Once additional guidance is issued, employers can evaluate the new requirements and possibly change current procedures. We can help you through this evaluation process.</p> <p><b>Note:</b> Keep in mind that we currently offer investment advisory services for retirement plan participants through the Principal Managed Account Program<sup>SM</sup> (the Program), which is powered by Ibbotson Associates as independent financial expert. While we are carefully considering the alternative methods of providing advice that PPA 06 makes available, the Principal Managed Account Program continues to be our method of choice for delivering advice to participants whose plan sponsors adopt the Program.</p>

## Pension Protection Act Guide – Defined Contribution Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>INVESTMENTS</b> <i>continued</i>				
Fiduciary Responsibility for Investment Advice	For plan years beginning on or after January 1, 2007	<p>Generally, an investment adviser who provides advice to invest in specific securities or vehicles that pay additional fees to the adviser or an affiliate of the adviser could violate ERISA.</p> <p>Plan sponsors who hire investment advisers have a fiduciary responsibility to prudently select and monitor the adviser. In addition, under ERISA, a plan sponsor could be liable for the fiduciary breaches of advisers they have hired.</p>	<p>A plan fiduciary does not fail to meet his fiduciary responsibilities if:</p> <ul style="list-style-type: none"> <li>• He allows investment advice and the adviser meets the prohibited transaction requirements.</li> <li>• The adviser acknowledges in writing that he is a fiduciary of the plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Fiduciaries are still subject to general fiduciary requirements of prudent selection and periodic review of a fiduciary advisor.</li> <li>• You would not have a duty to monitor the specific advice given by the fiduciary advisor to any recipient of such advice.</li> <li>• As under current law, you must engage in periodic review of the specific advice and the provider of such advice.</li> </ul> <p><b>Note:</b> We continue to be a co-fiduciary relative to specific investments you have with us.</p>
Diversification Rights of Investments in Publicly Traded Employer Securities	For plan years beginning on or after January 1, 2007 (delayed for collectively bargained plans)	DC plans generally can hold 100% of their retirement funds in employer stock, with limited (in the case of ESOPs) opportunity given to participants to diversify into other investment options.	<ul style="list-style-type: none"> <li>• Employees must be able to diversify (out of employer stock) the investment of their own contributions and elective deferrals immediately.</li> <li>• After 3 years of service, they must be able to diversify the investment of matching and non-elective contributions.</li> <li>• Plans must have at least 3 diversified investment options other than publicly traded employer securities. (N/A to privately held companies, stand-alone ESOPs, and 1-participant plans.)</li> <li>• Diversification rights may be phased in over 3 years for stock acquired with matching and non-elective contributions prior to 2007. The 3-year permissible phase-in is N/A to participants 55 or older with 3 years of service.</li> <li>• Participants with employee contributions or 3 years of service must be notified at least 30 days prior to their eligibility for diversification.</li> </ul>	<ul style="list-style-type: none"> <li>• This is a significant change for plans offering publicly traded employer stock as an investment option. Employees must be given choices they previously didn't have, and employers will need to communicate these changes as well as provide timely notice to affected participants.</li> <li>• Plans affected by the new rules have a short deadline for compliance.</li> </ul> <p><b>Note:</b> If your plan is impacted by this change, we will notify you to discuss alternatives.</p>
Mapping of Investment Options	For plan years beginning on or after January 1, 2008 (delayed for collectively bargained plans)	Plan sponsors have no statutory fiduciary protection during a blackout period or when participant investment options are mapped to new investment options without an affirmative election from plan participants.	<p>Statutory relief against fiduciary liability is provided if a participant's investments are mapped to similar investments if:</p> <ul style="list-style-type: none"> <li>• The participant has the right to direct investments;</li> <li>• The participant is given written notice of the change between 30-60 days before the change;</li> <li>• The participant has not elected investment options contrary to the proposed elections prior to the change date.</li> </ul>	<ul style="list-style-type: none"> <li>• Plan sponsors can take advantage of this statutory relief only by following the new rules.</li> </ul> <p><b>Note:</b> We can help you by providing a wide array of investment options and assisting with participant education.</p>
<b>PARTICIPANT NOTICES/COMMUNICATION</b>				
Blackout Notices	Immediately	Plan Administrators must send notice of a "blackout period."	<p>Blackout notices are no longer required to be sent to single-participant or partner-only plans.</p> <p>This change is retroactive to the effective date under the Sarbanes Oxley Act of 2002.</p>	<ul style="list-style-type: none"> <li>• Blackout notices are not required in all situations. For single-participant or partner-only plans, the step to provide such notice can be eliminated.</li> </ul>

## Pension Protection Act Guide – Defined Contribution Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>WITHDRAWALS/DISTRIBUTIONS/ROLLOVERS</b>				
Hardship Withdrawals	Immediately	Participants generally may make a hardship withdrawal for specific financial or unforeseeable emergencies <i>of the participant or their spouse or dependents</i> .	New rules are to be published to permit hardship withdrawals for specific unforeseeable emergencies of a <i>participant's beneficiary under the plan</i> , even if that beneficiary is not a spouse or dependent.	<ul style="list-style-type: none"> <li>Although not required to do so, 401(k) plans typically permit hardship withdrawals. Plan sponsors are free to choose whether they wish to adopt these modifications.</li> </ul> <p><b>Note:</b> We will update forms and systems as needed.</p>
Rollovers of After-Tax Contributions	For taxable years beginning on or after January 1, 2007	After-tax contributions may be rolled from one qualified plan into another as long as the accepting plan will record-keep the after-tax portion of the rollover separately from the rest of the participant's account. After-tax contributions from a qualified plan may also be rolled to an IRA. The same rule holds true for 403(b) plans.	Expands the portability of after-tax contributions by allowing rollovers of after tax contributions from a qualified plan to another qualified plan or 403(b) plan.	<ul style="list-style-type: none"> <li>Simplifies the rollover process.</li> <li>Encourages participants to preserve all qualified plan contributions for retirement.</li> </ul>
<b>VESTING</b>				
Vesting	For plan years beginning on or after January 1, 2007 (delayed for collectively bargained plans)	Employer contributions, other than employer matching contributions, must vest at least as fast as under a 5-year cliff and a 7-year graded vesting schedule. Employer matching contributions must vest under a 3-year cliff or a 6-year graded vesting schedule.	Applies the faster matching contributions vesting schedule (100% vesting after 3 years or 6-year graded) to all employer contributions.	<ul style="list-style-type: none"> <li>By eliminating a second vesting schedule, this may be a simplification for some plans. But it has a cost if forfeitures are used to offset contributions or plan expenses.</li> </ul> <p><b>Note:</b> We will work with you to determine if a change is needed.</p>
<b>MISCELLANEOUS</b>				
Missing Participants	TBD	For defined benefit plans which are covered by PBGC insurance and not multi-employer plans, there is a missing participant program which can be used to distribute assets of missing participants to the PBGC during a plan termination.	Extends the PBGC missing participant program to cover multi-employer plans and plans not covered by the PBGC insurance (like DC plans).	<ul style="list-style-type: none"> <li>Expands the availability of the PBGC missing participant program.</li> <li>You will eventually be able to utilize this program on an elective basis when terminating your retirement plan.</li> </ul>

# Employer Securities

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>VESTING</b>				
Accelerated Minimum Vesting	For plan years beginning on or after January 1, 2007 (delayed for collectively bargained plans)  (delayed for Employee Stock Ownership Plan (ESOP)/ESOP and 401(k) components (KSOPs) with an outstanding exempt loan on September 26, 2005)	Except for matching contributions, employer contributions must vest at least as rapidly as under a 5-year cliff or a 7-year graded vesting schedule.  Employer matching contributions must vest at least as rapidly as under a 3-year cliff or a 6-year graded vesting schedule.	Applies the accelerated matching contributions vesting schedule (3-year cliff or 6-year graded) to all employer contributions.  Applies only to contributions made in plan years beginning on or after January 1, 2007.  ESOP/KSOP exempt loan delayed effective date is available until the plan year beginning on or after the earlier of: 1) The date the exempt loan is repaid, or 2) The date the exempt loan, as of September 26, 2005, is scheduled to be repaid.	<ul style="list-style-type: none"> <li>• An ESOP/KSOP's vesting schedule(s) must change if the schedule(s) is (are) not at least a 3-year cliff or an appropriate 6-year graded schedule.</li> <li>• The cost of offering your ESOP/KSOP may increase if forfeitures were used to offset contributions or plan expenses.</li> <li>• Decisions must be made on how to implement the change in vesting: <ul style="list-style-type: none"> <li>• Apply only to contributions made in plan years beginning after December 31, 2006?</li> <li>• Take advantage of delayed effective date if eligible?</li> <li>• Apply to participants who have no service in plan years after December 31, 2006?</li> </ul> </li> </ul>
<b>EMPLOYER SECURITIES</b>				
Diversification Rights of Investments in Employer Securities	For plan years beginning on or after January 1, 2007 (delayed for collectively bargained plans).	Participants who have attained age 55 and have completed at least 10 years of participation must be eligible to diversify out of employer securities held in an ESOP/KSOP. Required diversification is limited to a cumulative 25% of employer securities held by a participant in the first 5 years the participant is eligible to diversify and increased to 50% in the sixth year. Diversification elections are satisfied by the plan through 1) distribution 2) participant given the opportunity to direct retirement funds to at least 3 investment alternatives other than employer securities within the ESOP/KSOP, or 3) transfer to another plan which does allow such investment alternatives and participant direction.	Except for "stand-alone" ESOPs and ESOP/KSOPs sponsored by non-publicly traded companies, different diversification rules are applicable to employer securities held by an ESOP/KSOP. <ul style="list-style-type: none"> <li>• Participants must have the immediate right to diversify employee after-tax and salary deferral contributions invested in employer securities.</li> <li>• Participants with 3 years of service must have the right to diversify employer matching and non-elective contributions invested in employer securities.</li> <li>• ESOP/KSOPs must offer at least 3 diversified investment alternatives other than employer securities.</li> <li>• Diversification rights may be phased in over 3 years for employer securities acquired with matching and non-elective contributions prior to the first plan year beginning on or after January 1, 2007. Participants who have attained age 55 and have at least 3 years of service before the first plan year beginning on or after January 1, 2006, are not eligible for this phase-in.</li> </ul>	<ul style="list-style-type: none"> <li>• Ascertain whether the new diversification rules apply to your ESOP/KSOP. Implementation may require significant change for an ESOP/KSOP sponsor whose plan does not already allow for participant direction of funds.</li> <li>• "Stand-alone" ESOPs are those that have no employee after-tax, salary deferral, or employer matching contributions, and are a separate plan.</li> <li>• The new diversification provisions affect ESOP/KSOPs that hold or offer publicly traded employer securities as well as those plans that hold or offer privately held employer securities where the ESOP/KSOP sponsor, or 1 or more of its controlled group members has a publicly traded class of stock.</li> <li>• Review investment alternatives available to determine whether your ESOP/KSOP meets the new diversification provisions. Some ESOP/KSOPs may already have sufficient other investment options available, while others may need to provide additional investment options.</li> <li>• Plans affected by the new rules have a looming deadline for compliance, i.e., January 1, 2007, for calendar year plans.</li> <li>• ESOP/KSOP sponsors must determine whether to utilize the phase-in rule. In addition to the additional administrative complexity, consider the impact on cash flow and/or market value depending upon the decision and number of shares affected.</li> <li>• Traditional ESOP/KSOP rules are inapplicable for plans subject to the new diversification rules.</li> </ul>

## Pension Protection Act Guide – Employer Securities

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>EMPLOYER SECURITIES</b> <i>continued</i>				
Participant Notification of Diversification Rights of Employer Securities	For plan years beginning on or after January 1, 2007	The summary plan description is required to provide information regarding diversification of employer securities.	Participants subject to the new diversification rules described above (those with employee contributions or 3 years of service) must be notified at least 30 days prior to their eligibility for diversification of employer securities. Notice must also contain information regarding the importance of diversification of employer securities.	<ul style="list-style-type: none"> <li>Enhanced notification of the right to diversify and the importance of diversification must be given to affected plan participants.</li> <li>Traditional ESOP/KSOPs that are not subject to the new diversification rules are not required to change their notification procedures. However, information contained in the new notices may serve as a model for communicating with participants subject to traditional diversification.</li> </ul> <p><b>Note:</b> The IRS is directed to issue a model notice within 180 days of the enactment of this legislation. You will be kept apprised as additional information regarding the IRS model notice becomes available.</p>

**Note:** ESOP/KSOPs may also be affected by PPA changes found in the defined contribution summary. Please contact your service team at The Principal® to help answer questions you might have about the PPA.

## Nonqualified Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>NONQUALIFIED</b>				
Linkage of Defined Benefit (DB) and Nonqualified Plans	Immediately	Nonqualified deferred compensation plans can be established and informally funded irrespective of the existence or funding status of tax-qualified DB pension plans sponsored by the same employer.	<p>In general, if an employer sponsoring a qualified DB plan is bankrupt, an underfunded DB plan is terminated, or the plan is “at-risk” (less than 80% funded), and general corporate assets are transferred or set aside to fund nonqualified deferred compensation benefits while these conditions exist, then certain “key” executives will be taxed on their nonqualified plan benefits. A 20% tax penalty will apply, in addition to interest penalties at the appropriate underpayment rate. Employers with 500 or fewer qualified plan participants are exempt from the “at-risk” condition.</p> <p>This funding restriction applies immediately, except that a qualified DB plan cannot be classified “at-risk” until plan year beginning on or after January 1, 2008.</p>	<ul style="list-style-type: none"> <li>Employers should periodically review the total picture of benefits provided to executives and rank and file employees. Now, post-Enron, Congress has tied together the funding of qualified and nonqualified plans under certain conditions. The bottom line is that employers sponsoring nonqualified deferred compensation plans with features that require the transfer of plan assets to a trust under certain conditions, such as a change in control event, must pay attention to the funding status of its qualified defined benefit plans as well in order to avoid severe tax penalties for their key executives.</li> </ul>

## Pension Protection Act Guide – Nonqualified Plans

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>NONQUALIFIED</b>				
Corporate Owned Life Insurance (COLI)	Immediately	Generally, no federal income tax is imposed on death benefits paid under life insurance contracts. Accordingly, COLI became a tax-effective way to finance executives' nonqualified benefits. In certain abusive situations involving prominent nationally recognized businesses, insurance was issued on the lives of rank and file employees who were unaware they were insured and had no interest in the policies.	Life insurance death benefits paid under an employer-owned policy are tax-free only if certain conditions are met. In general, death benefits paid as a result of the death of highly compensated employees (as defined in IRC 414(q)), highly compensated individuals (as defined in IRC 105(h)(5)) or directors, remain tax-free.	<ul style="list-style-type: none"> <li>• The new tax treatment applies to policies issued or materially changed after the date of enactment.</li> <li>• We can help you evaluate your current and new COLI programs.</li> </ul>

## Individual Investors

SPECIFIC POINTS	EFFECTIVE DATE	CURRENT LAW	PENSION PROTECTION ACT	WHAT IT MEANS TO YOU
<b>INDIVIDUAL INVESTORS</b>				
Charitable Contributions	Taxable years beginning between January 1, 2006, and December 31, 2007	Normal charitable contribution deduction limits apply to donations from IRAs to charitable organizations.	Anyone age 70½ or older now can make up to \$100,000 annually in tax-free direct distributions from IRAs to charitable organizations.	<ul style="list-style-type: none"> <li>• Charitable giving from IRAs is simplified and enhanced for individuals.</li> </ul>
Tax Refund to IRA	Taxable years beginning in 2007	Allows taxpayers to directly deposit their tax refunds only into a savings or checking account.	Also allows taxpayers to directly deposit their tax refunds into their IRAs.	<ul style="list-style-type: none"> <li>• Easier funding of IRAs.</li> </ul>
Investment Advice for IRAs	For plan years beginning on or after January 1, 2007	An investment adviser who recommends investments that pay an additional fee to the adviser could be considered a prohibited transaction (self-dealing).	<p>New prohibited transaction exemptions for investment advice given by fiduciary advisers require that the fees received by the fiduciary adviser do not vary in accordance with the investment options chosen.</p> <p>The DOL is directed to study the feasibility of extending a computer-based exemption to IRAs (similar to that for ERISA plans).</p>	<ul style="list-style-type: none"> <li>• Individuals may be able to get professional investment advice on their IRAs as well as their ERISA plans.</li> </ul> <p><b>Note:</b> Princor Registered Representatives are prohibited from giving investment advice on ERISA covered assets.</p>



WE'LL GIVE YOU AN EDGE<sup>SM</sup>

Principal Financial Group, Des Moines, Iowa 50392-0001, [www.principal.com](http://www.principal.com)

This publication is intended to provide accurate and authoritative information in regard to the subject matter covered. The accuracy of the information is not guaranteed and is provided with the understanding that The Principal is not rendering legal, accounting, or tax advice. While this communication may be used to promote or market a transaction or an idea that is discussed in the publication, it is not a marketing opinion and may not be used to avoid penalties under the Internal Revenue Code. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements.

Insurance products and plan administrative services are provided by Principal Life Insurance Company,  
a member of the Principal Financial Group®, Des Moines, IA 50392.

©2006 Principal Financial Services, Inc.

CP 2303 A-1 | 5843092008 | 09/2006