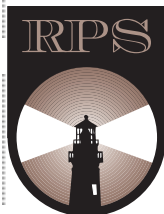


Important Changes in The Pension Protection Act: The Benefits for Plan Sponsors and Participants

October 16, 2007

Presented by:

Sallie Olson
*Director of Compliance
& Consulting*



Darin Richards
Chief Investment Officer





Overview

● PPA '06 Provisions


- Defined Contribution Plan Provisions
 - Defined Benefit Plan Provisions
 - Design Opportunities
 - Other Provisions
- 

Defined Contribution Plan Provisions






EGTRRA Permanence

- Made permanent
 - Increased deferral, deduction, & contribution limits
 - Catch up contributions
 - Enhanced portability
 - Roth 401(k)s (eff. in 2006)
 - Saver's credit also made permanent (up to 50% of first \$2,000 in deferrals made by low income participants)
- 




Why Roth 401(k)?

- Lower tax rates now
 - Greater total money at retirement, after all taxes
 - No required minimum distributions
 - Diversify retirement income between pre and post tax dollars
- 




Automatic Enrollment in 401(k) Plans

- ERISA preempts state law rules regarding wage withholding and minimum wage (2006)
 - New IRC 414(w) requirements:
 - Uniform contribution percentage
 - Invested under new DOL default investment rules
 - Annual notice to participant / right to cancel
 - Participant may elect to withdraw within first 90 days
- 




Automatic Enrollment (cont.)

- New Automatic Enrollment “safe harbor” (“QUACA”) (2008)
 - Avoid ADP & ACP testing
 - Automatic deferral of 3%, with 1% increase each year up to at least 6% (no more than 10%)
 - Matching contribution of 100% of deferrals up to 1% of wages, plus 50% of deferrals between 1% and 6% of wages – OR – 3% non-elective (“profit sharing”) contrib.
 - Two-year optional vesting schedule
 - Compare to 401(k) “safe harbor” plans
- 




Default Investment Options

- Prior Law: Participant's affirmative election required, or no ERISA 404(c) protection
 - PPA Change: Fiduciaries protected under 404(c) from liability for:
 - “Default” investments (2007)
 - Lifecycle funds, balanced funds, or managed accounts
 - Changes in investment options due to “mapping” (2008)
 - Funds must have similar risk and return characteristics
 - “Blackout periods” (2008)
 - Sarbanes Oxley requirements must be satisfied
- 



Distributions


- Hardship distributions may be based upon hardship of participant's "beneficiary" (Treasury to issue regs within 180 days)
 - Notice and consent period for distributions may be extended from 90 days to 180 days (2007)
 - Military duty personnel allowed penalty free withdrawals; can redeposit tax free for 2 years (9/11/01)
 - PBGC Missing participant program expanded – to cover terminating DC plans
- 

Defined Benefit Plan Provisions





Tighter Rules for Underfunded Plans

- Underfunded is under 100%
 - 7 year period to “smooth” variances
 - Higher PBGC premiums on “at risk” plans (under 80%)
 - Restrictions on LS and benefit increases in at risk plans
 - Freeze future accruals (<60% funded)
- 



Cash Balance Plans

- Cleared of age discrimination issues
- Conversion of traditional DB plans
- Resolution of “whipsaw” issues




Other Provisions






Rollover Changes

- Rollovers by non-spouse beneficiaries permitted – treated as inherited IRA for RMD purposes (2007)
 - Rollovers of after-tax amounts to DC, DB, or 403(b) plans permitted (2007)
 - Direct rollovers to Roth IRAs allowed (conduit traditional IRA no longer required) if <\$100,000 in income (2008)
- 




Vesting of Profit Sharing Contributions

- Prior Law: Maximum vesting schedule: 5-year “cliff” or 7-year “graded” (unless top-heavy)
 - PPA Change: Maximum vesting schedule: 3-year “cliff” or 6-year “graded”
 - Shorter vesting already applies to matching contributions (per EGTRRA)
 - Defined contribution plans only
 - Effective 2007
- 




Benefit Statements

- Prior Law: One per year “if requested”
 - PPA Change (2007):
 - DC Plans: One per year unless:
 - Participant-directed investments
 - Quarterly statements with vesting
 - Additional information on investment options and diversification must be included (DOL to issue form)
 - DB Plans:
 - One statement every three years, or upon request (one per year)
 - Statement on funded status required
- 




IRAs

- Income limitations for traditional and Roth IRA contributions indexed for inflation
 - Tax refunds may be directly deposited into IRAs
 - IRA owners who are 70-1/2 may make tax-free IRA gifts to charity (up to \$100,000) (2006 & 2007 only)
 - Roth IRA conversion income limit eliminated in 2010
- 



2007 Qualified Plan Limits

- 402(g) Elective Deferral Limit (401(k), 403(b) & 457(b) plans): \$15,500 (up \$500)
 - 401(a)(17) Annual Compensation Limit: \$225,000 (up \$5,000)
 - 415(b) Annual Benefit Limit (DB Plans): \$180,000 (up \$5,000)
 - 415(c) Annual Additions Limit (DC Plans): \$45,000 (up \$1,000)
 - Taxable Wage Base: \$97,500 (up \$3,300)
- 



Do Participants Need Help?

Convexity

Duration

Up Capture

Mid Cap

Alpha

Beta

Information Ratio

Loads

P/E Ratio

12b-1 fees

Turnover

Sharpe Ratio

Small Cap

Yield to Maturity

Expense Ratio





YES!


● Failure to Diversify

- 52.6% of retirement plan participants hold either no equity or more than 80%

● Failure to Rebalance

- Participants generally don't adjust their holdings in response to returns or age

● Failure to Perform

- Hancock study indicates that allocation funds would increase participant returns by 2.96%
- 

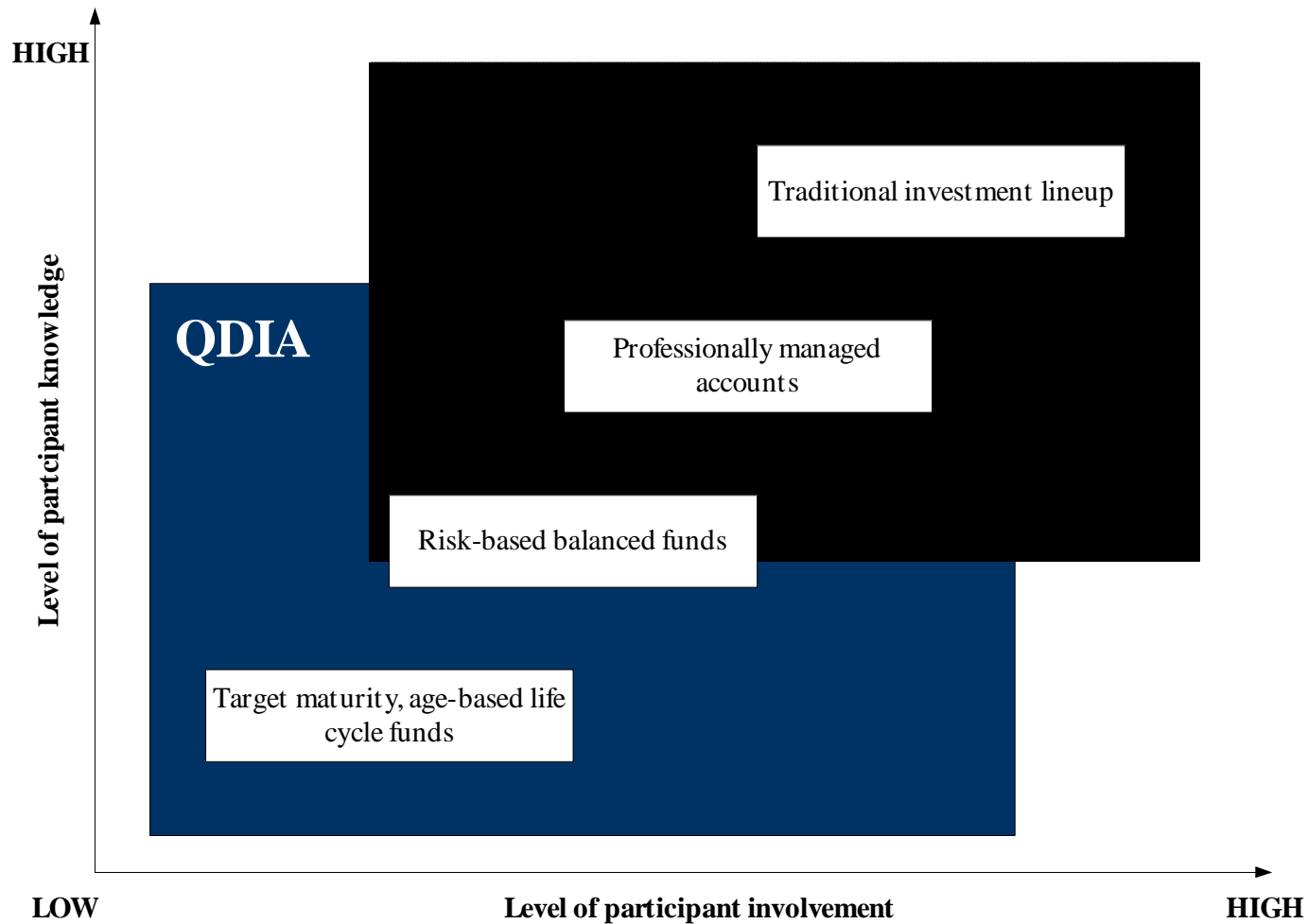


Proposed DOL Regulations

- Qualified Default Investment Alternative
 - Permissible Default Investments
 - Lifecycle or Target Retirement Funds
 - Balanced Funds (stocks and bonds)
 - Managed Accounts



Participant Demographics





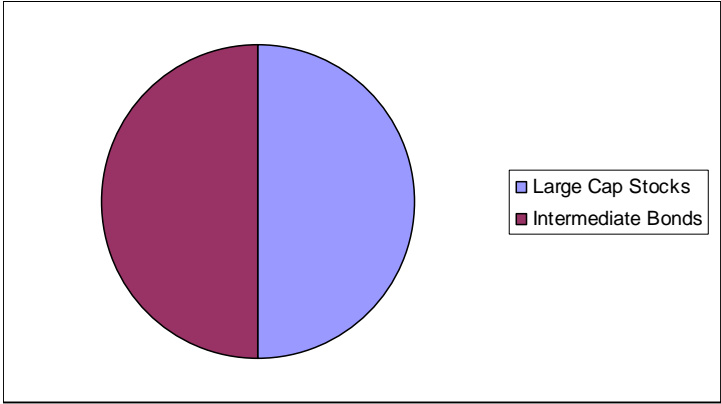
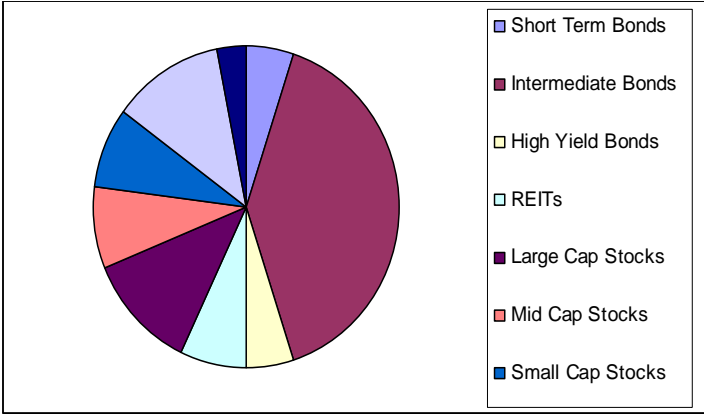
Asset Allocation Funds

- It's not in the name!
 - Lifestyle, lifecycle, balanced, target date, asset allocation
 - What is consistent?
 - Diversification
 - Professional Management
 - Clear Objective
 - Single Investment Vehicle

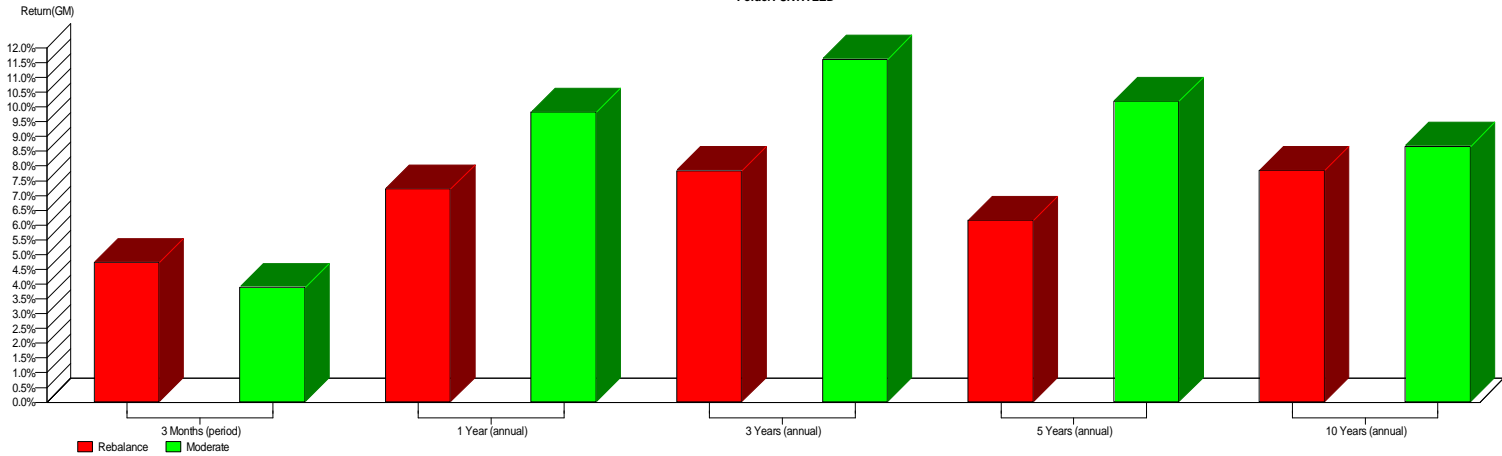




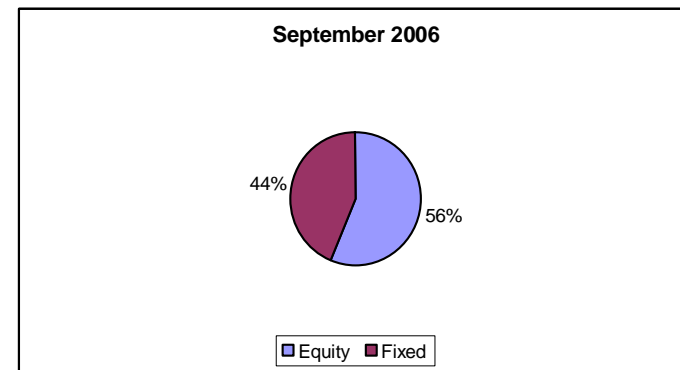
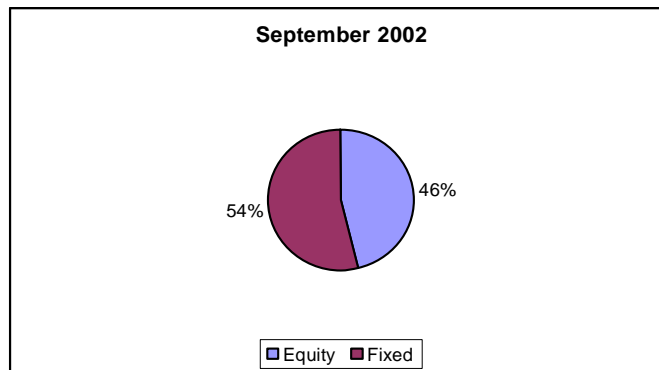
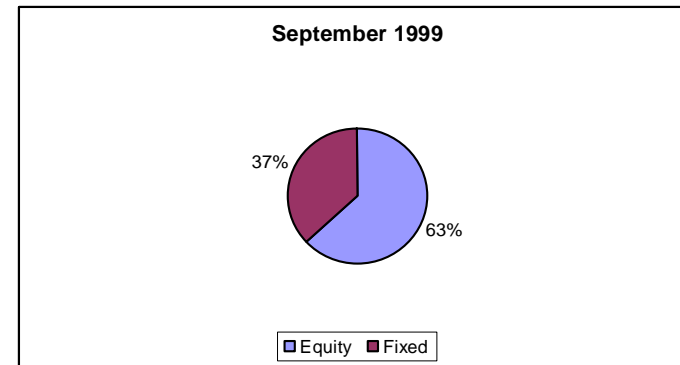
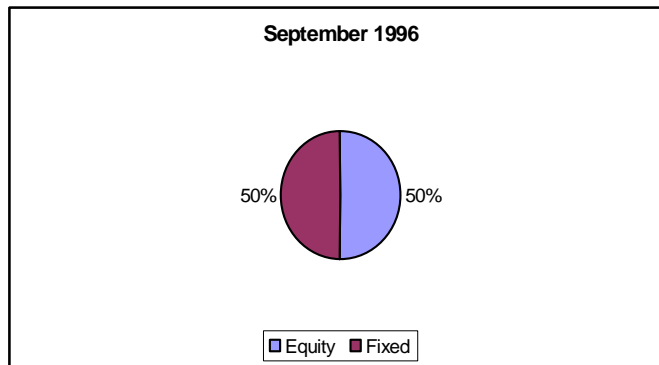
Diversification



Performance Bar Graph
Folder: UNTITLED

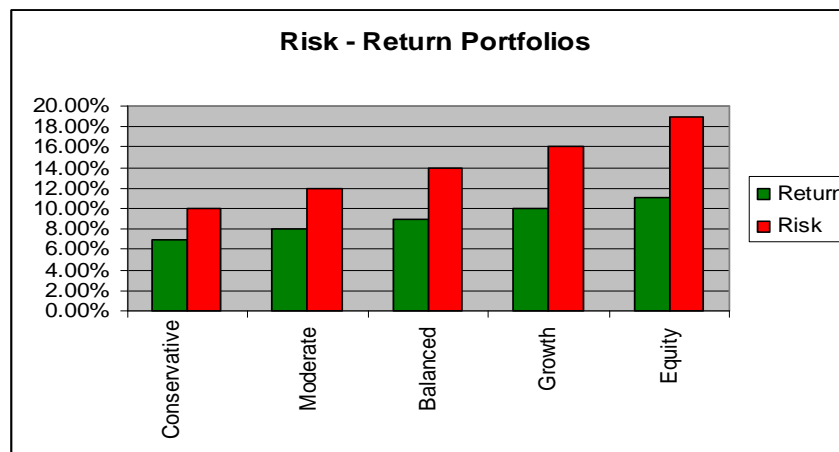
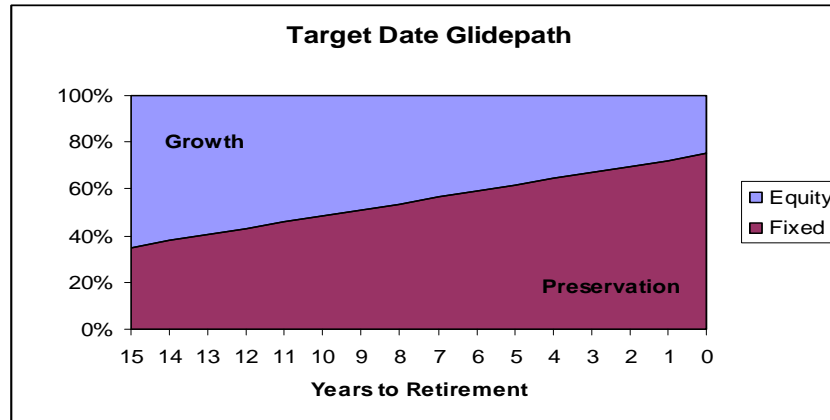


Professional Management



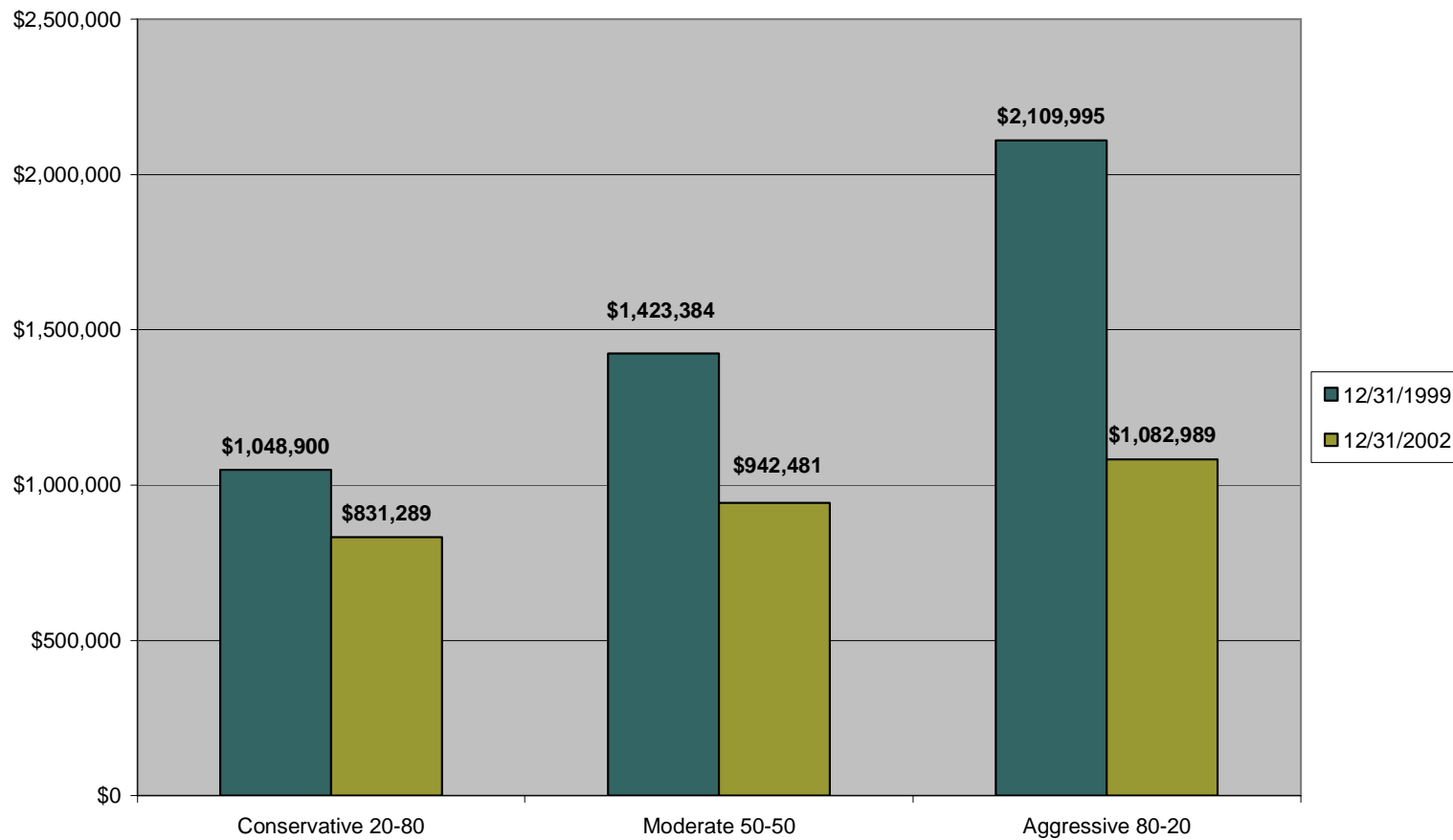
	N Periods	Geometric Mean (%)	Standard Deviation (%)	Sharpe Ratio	Maximum Decline (%)	N Negative Periods
No Rebalance	120	8.01	12.70	0.2073	-32.48	46
Rebalance	120	7.86	8.43	0.2908	-16.31	43

Clear Objective



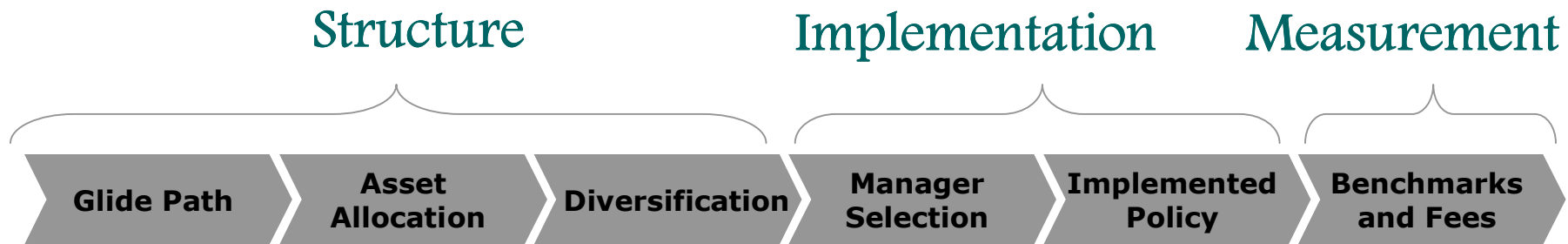
Appropriate Allocation

Ending Account Balances
(\$100,000 investment on December 31, 1979)






Evaluating Allocation Funds



Questions to Consider:

- What is the fund's structure?
 - How are they implemented?
 - How should they be measured?
- 

Questions?

