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HOT TOPIC: AUTOMATIC ENROLLMENT

The Pension Protection Act of 2006 expanded upon the automatic enrollment arrangements currently approved by the IRS by authorizing an eligible automatic contribution arrangement that will enable employers to unilaterally enroll employees who do not elect otherwise in their 401(k) plans at a specified percentage of compensation and invest contributions in DOL-approved default investment funds without fear of fiduciary liability (*see QDIA on back page*), and without being subject to state garnishment law restrictions. *These arrangements have been very popular with plan sponsors and are catching on rapidly.*

Automatic enrollment is designed to take advantage of the tendency of employees towards inertia with respect to the management of their retirement accounts. The potential advantage of automatic enrollment is that it may increase participation in the plan, especially among non-highly compensated employees. In addition, because the deferrals may be considered by the employer in applying the ADP test, automatic enrollment may help the plan satisfy the nondiscrimination test, as the employer will no longer be required to treat employees who do not make affirmative deferral elections as having a deferral percentage of zero.

Employees must receive an annual notice of their rights under the arrangement including the right not to participate in the arrangement or the right to elect to make contributions at a different percentage of compensation. In addition, employers are allowed to provide a 90-day window within which to request refunds of automatic contributions made under the arrangement. The distributions will be subject to income tax (but not penalty tax) and matching contributions will be forfeited.

EGTRRA Restatement Update

Periodically, the IRS requires all plan documents to be updated for the most recent law changes. When EGTRRA was enacted in 2001, the provisions required that all plans be updated to include the newly required language by the last day of the 2005 plan year. This date has been extended several times over the past few years.

For those sponsors using a pre-approved prototype plan document, the IRS expects to issue all approval letters by the end of the first quarter in 2008. It is expected that employers will have 2 years from the date the plans are formally approved to restate their plans.

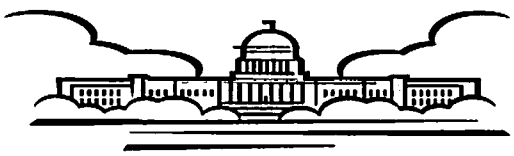
Subsequent restatements for pre-approved plans will adhere to a six-year restatement cycle. In other words, your plan document will have a six year "shelf life" in the future.

Roth 401(k) Reminder:

More and more Plan sponsors are adding this feature to their plans.

Under the Roth *IRA*, contributions of up to $5,000 annually can be made, subject to income limitations. In the Roth *401(k)*, you can substitute pre-tax with post-tax wage-based contributions and contribute up to $20,500 in 2008 as Roth contributions. These contributions and subsequent earnings are tax-free (vs. tax deferred) upon withdrawal, subject to certain limitations. For more details, please see www.papensionplanners.com/legupdates/roth401k/.

If you would like to pursue adding this feature to your retirement plan, please contact us for the particulars. This can generally be done for any 401(k) plan on a recordkeeping platform at minimal administrative expense.



Pension Buzzwords:

Contribution Escalator: an automated feature provided by some 401(k) sponsors, it enables sponsors or participants to set up automatic future 401(k) contribution rate increases. These are usually scheduled to coincide with expected pay raises.

The IRS website lists the following 11 most common errors employers make in sponsoring a 401(k) Plan:

1. Failure to update plan documents to reflect recent law changes.
2. Failure to operate the plan document in accordance with its written terms.
3. Failure to follow the plan's definition of compensation for all deferrals and allocations.
4. Failure to make employer matching contributions in accordance with plan terms.
5. Failure to satisfy the ADP and ACP nondiscrimination tests.
6. Failure to identify all eligible employees.
7. Failure to limit elective deferrals under Code §402(g) – ($15,500 for 2008) for the calendar year; failure to distribute any excess deferrals.
8. Failure to timely deposit elective deferrals.
9. Failure to make required minimum contributions to top-heavy plans.
10. Failure to make hardship distributions properly.
11. Failure to file a Form 5500 and to properly distribute a Summary Annual Report.

As third-party administrators, Pennsylvania Pension Planners takes steps to ensure that your plans are fully compliant with the federal tax code.
The full text of the article can be viewed at:
http://www.irs.gov/pub/irs-tege/401k_mistakes.pdf

QUALIFIED DEFAULT INVESTMENT ALTERNATIVE (QDIA)

The Pension Protection Act (PPA) added a new fiduciary protection to ERISA for default investments. Section 404(c)(5) provides that, in situations where participants have an opportunity to direct their investments but fail to do so, the fiduciaries will be entitled to a 404 (c) defense if those participants are invested in a qualified default investment alternative (QDIA).

Fiduciaries have historically selected a single "default investment" for all of the defaulting participants in the plan. However, since those were fiduciary selected—and not participant directed, the fiduciaries were legally responsible for prudently selecting and monitoring the use of the investment for the defaulted participant.

Generally, acceptable QDIA investments are target maturity funds (e.g., lifecycle or target date funds), balanced funds or models (including risk-based lifestyle funds) and managed accounts .

If your Plan frequently default enrolls participants, you can read more at www.papensionplanners.com/news/QDIA.

JAZZ UP YOUR STATEMENTS

Virtually all large 401(k) recordkeeper have the ability to customize participant statements with the plan sponsor's logo and/or personalized message. This results in a familiar, professional appearance to the participants when they open their benefit statements each quarter. For more information on how this works, contact your recordkeeper directly or contact us.

FEDERAL DOLLAR LIMITS

	2004	2005	2006	2007	2008
401(k) Elective Deferrals	$ 13,000	$ 14,000	$15,000	$15,500	$15,500
Catch-up Contributions	3,000	4,000	5,000	5,000	5,000
Defined Benefit Plans	165,000	170,000	175,000	180,000	185,000
Defined Contribution Plans	41,000	42,000	44,000	45,000	46,000
Annual Compensation Limit	205,000	210,000	220,000	225,000	230,000
Highly Compensated Employee	90,000	95,000	100,000	100,000	105,000
SIMPLE Retirement Accounts	9,000	10,000	10,000	10,500	10,500
SEP Coverage	450	450	450	500	500
SEP Compensation	205,000	210,000	220,000	225,000	230,000
Social Security Wage Base	87,900	90,000	94,200	97500	102,000

We are proud to sponsor the USL-2 2007 Champion Harrisburg City Islanders Professional Soccer Club