

2006 Year-End Compliance Information



Compliance testing and reporting is an annual federal requirement that is part of ensuring the ongoing qualified tax status of a retirement plan.

American United Life Insurance Company® (AUL) will soon be contacting you to collect detailed plan and participant information which will be used to assist you in meeting all year-end reporting requirements. Please use the information provided in this publication to assist you with gathering data. We've also included a chronological listing of important 2007 calendar dates to help you maintain your plan's compliance with Internal Revenue Service (IRS) and Department of Labor (DOL) regulations and deadlines.

SIMPLE and Safe Harbor 401(k) Plans

SIMPLE (Savings Incentive Match **PL**an for Employees) and Safe Harbor 401(k) plans allow an employer to provide a retirement plan to employees while also:

- ◆ Eliminating the need for certain year-end compliance testing
- ◆ Eliminating many corrective refunds
- ◆ Allowing the company owners and highly compensated employees (HCEs) to defer the maximum dollar limit
- ◆ Providing for additional employer contributions

If your 401(k) plan is converting to a Safe Harbor plan, you need to do two things before the beginning of your new plan year:

1. Distribute a Safe Harbor notice 30 to 90 days prior to the beginning of the plan year. (Note: December 1, 2006, is the last day to give the Safe Harbor notice for a plan that begins on January 1, 2007.)
2. Amend your 401(k) plan to include Safe Harbor 401(k) provisions. Your plan services consultant can guide you through this process.

If your 401(k) plan is already a Safe Harbor plan, a Safe Harbor notice reminder mailing will be sent to you beginning in late October. If you have other Safe Harbor questions, please contact your plan services consultant.

We can help you determine if your plan would benefit from SIMPLE or Safe Harbor features

Required Minimum Distributions (RMDs)

Current tax law requires minimum distributions from qualified plans for certain participants who have attained age 70½. Specific requirements are defined by your plan. During the fourth quarter of 2006, letters were mailed to you with additional information about RMDs.

Important facts to remember about RMDs include:

- ◆ A distribution from a participant's IRA does not satisfy the RMD for that participant's qualified retirement plan
- ◆ Taking a RMD does not prevent any active participant from continuing to contribute to the plan
- ◆ RMDs cannot be rolled over to an IRA, 403(b) or a qualified plan. However, RMDs from a Roth deferral source can be rolled over to a Roth IRA if the distribution is made before the Required Beginning Date (RBD).

Match computation period and true-up contributions

If the match contribution computation period in your plan document or adoption agreement is *annual* and you submit match contributions throughout the year, you may need to make a year-end "true-up" contribution to some participants. An annual computation period requires a match to be calculated based on the participant's year-end compensation and deferral percentage totals.

To avoid having to make future true-up contributions or other adjustments, we encourage you to follow the computation period outlined in your document and send match contributions only after the participant has earned them.

Forms 1099-R and 945

IRS Form 1099R is sent to each participant who has received a distribution during the 2006 calendar year. By January 31, AUL provides 1099 forms for distributions if this is part of your service contract. Notification will be sent to you regarding Form 1099s that are returned to us as undeliverable.

IRS Form 945 reports the federal tax withheld from qualified retirement plan distributions. Taxes withheld from plan distributions paid by AUL are reported to the IRS via the AUL corporate Form 945. Therefore, plan sponsors should report only distributions which are not paid by AUL (tax withholding) on their corporate Form 945.

Compliance Testing

AUL performs these required compliance tests for its full service customers upon receipt of census data:

- ◆ 402(g) elective deferral limitation monitoring
- ◆ 410(b) Minimum Coverage testing
- ◆ Actual Deferral Percentage (ADP) testing
- ◆ Actual Contribution Percentage (ACP) testing
- ◆ 415 Annual Additions Limitation testing
- ◆ Specialized testing services (if required)

We also assist our limited service clients with ADP and ACP testing, if selected in the Administration Services Agreement.

For important testing deadlines, please see the calendar at the end of this publication.

*Do you have
any employees
who are 70½?*

*Both forms affect
the reporting of
distribution
information*

*The enclosed
calendar gives
you important
compliance
deadlines*

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Census Data

If your Administrative Services Agreement specifies, the information provided on your census, certification page and Qualified Plan Information Report (QPIR) will be used in the preparation of many services, including:

- ◆ Calculating vesting
- ◆ Completing forfeiture reallocation (if applicable)
- ◆ Updating employee status for accurate reporting and auditing purposes
- ◆ Annual report
- ◆ Compliance testing

Census data is critical for accurate reporting

Top-Heavy Testing

A qualified plan is top-heavy if the present value of accrued benefits (account balances) of the *key employees* exceeds 60 percent of the present value of accrued benefits for *all employees*.

If a plan becomes top-heavy, the consequences to the plan are:

- ◆ Minimum vesting schedule:
 1. Full vesting after three years of service, or
 2. 20 percent vesting each year beginning after the employee's second year and full vesting after his or her sixth year of service
- ◆ Minimum top-heavy contribution equal to the lesser of:
 1. 3 percent of compensation, or
 2. The highest percentage of contribution in the current year for a key employee

A top-heavy plan may impact vesting and employer contributions

The minimum contribution is allocated as determined in your adoption agreement/plan document. The minimum contribution may not be reduced or withheld due to integration, an hours of service requirement or lack of profit. It also cannot be limited to participants actively deferring in the plan.

Summary Annual Report and Form 5500

Utilizing information from the adoption agreement/plan document, contract, census and annual report, AUL provides its full service customers with a Summary Annual Report (SAR) and Form 5500 (including related schedules).

The Department of Labor (DOL) requires that each participant in a retirement plan receive a SAR. The SAR provides a financial summary and overview of the plan's activity for the year. It also notes minimum funding standards for money purchase plans, details the participant's right to additional information and gives directions regarding how to obtain that information.

In addition, regulations require plan sponsors to file an annual tax return for each qualified plan they maintain. The DOL Form 5500 (including related schedules) is a summary of the following:

- ◆ Plan's financial activity
- ◆ Participant status data
- ◆ Trustee data
- ◆ Plan features
- ◆ 410(b) minimum coverage results
- ◆ Funding information
- ◆ Insurance carrier information

Mark your calendar now! The Form 5500 filing deadline is seven months after your plan year ends

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The timeline below will help you understand the compliance and reporting deadlines associated with the administration of your plan. The dates apply to plan years beginning January 1. If your plan has an anniversary date other than January 1, please adjust the following dates accordingly.

2007 Compliance and Reporting Timeline

MID TO LATE JANUARY

Deadlines for return of census materials and final contribution information to ensure all testing is completed by March 15.

MARCH 15

Deadline for penalty-free correction of failed ADP/ACP plan testing. Return of excess contributions or excess aggregate contributions by this date are not subject to the IRS 10 percent excise tax.

APRIL 2

Deadline for first-year age 70½ required minimum distributions (RMD).

APRIL 16

Deadline for 402(g) excess deferral refunds. **This date applies to all 401(k) and 403(b) plans regardless of anniversary date.**

JULY 31

Deadline for plan sponsors to file Form 5500 with the DOL. If Form 5500 isn't filed by this date, Form 5558 must be filed for an extension by this date.

SEPTEMBER 17

Last date a deductible employer contribution can be made if corporate tax extension was filed.

OCTOBER 1

Deadline for Summary Annual Report (SAR) to be distributed to participants unless an extension for Form 5500 was obtained.

OCTOBER 15

- 410(b) minimum coverage test failure corrections must be complete.
- Form 5500 filing deadline for plans which filed for extension using Form 5558.

NOVEMBER 15

Final deadline for plan sponsors to return census data to ensure compliance testing is completed before the final 12-month IRS refund deadline.

DECEMBER 17

Deadline for SAR to be distributed to participants if an extension for Form 5500 was obtained.

DECEMBER 31

RMDs, 415 Annual additions excess, and ADP/ACP refunds must be completed to comply with federal regulations.

Qualified retirement plans from American United Life Insurance Company® (AUL) are funded by an AUL group variable annuity contract. While a participant in an annuity contract may benefit from additional investment and annuity related benefits under the annuity contract, any tax deferral is provided by the plan and not the annuity contract.

Registered group variable annuity contracts issued by AUL are distributed by OneAmerica Securities, INC., Member NASD, SIPC, a Registered Investment Advisor, P.O. Box 1984, Indianapolis, IN 46206, (317) 285-1877, which is a wholly owned subsidiary of AUL.

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For more information on these topics, visit our plan sponsor Web site at www.eretirement.aul.com