What the Pension Protection Act of 2006 Means to You

The Pension Protection Act of 2006 (PPA) was signed into law on August 17, 2006. While PPA addresses numerous areas of investor concern, including college saving and charitable giving, it contains especially good news for retirement plan sponsors and participants. Highlights of this legislation's 900 pages include the following:

EGTRRA Provisions Made Permanent

Effective August 17, 2006

Most importantly, the retirement plan provisions enacted under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) were made permanent under PPA. These provisions, which were originally slated to expire in 2010, include:

Individual Contribution Dollar Limit Increases*

Type of Contribution	Limit in 2006
401(k)/403(b) deferral	$15,000
401(k) catch-up	$5,000
Traditional/Roth IRA	$4,000
Traditional/Roth IRA catch-up	$1,000
SIMPLE IRA/SIMPLE 401(k)	$10,000
SIMPLE catch-up	$2,500

* Subject to annual cost-of-living adjustments

The act also permanently extends the EGTRRA increases in the following:

Other Annual Dollar Limit Increases

Limit	Limit in 2006
Defined Contribution Plan Limit	$44,000
Defined Benefit Limit	$175,000
Compensation Limit	$220,000

Inform your participants of how these permanent increases could make it easier to reach retirement goals in less time.

Saver's Credit Provisions Made Permanent

Effective August 17, 2006

The Act extends the nonrefundable "Saver's Credit", which provides low-income taxpayers who contribute to retirement plans or IRAs a credit of up to $2,000.

Hardship Distributions for Named Beneficiaries

Effective August 17, 2006

PPA allows participants to take a hardship distribution in cases where the hardship is experienced by a named beneficiary of the participant. (Previously, hardship distributions were only allowable when the hardship directly impacted the participant and/or the participant's dependents.) Additional guidance on this provision will be forthcoming from the Internal Revenue Service.

Permanent Increases in 401(k) & IRA Contributions

Provisions Effective in 2007

The PPA also makes changes that will affect the way plans are operated.

Additional Rollover Flexibility

Effective January 1, 2007 unless otherwise noted

A non-spouse beneficiary can now roll over distributions from a qualified plan, 403(b) plan or 457 plan into an IRA without tax consequences.

Rollovers of after-tax contributions are permitted to and from different types of employer-sponsored plans, including designated Roth accounts.

Effective January 1, 2008, distributions from a qualified plan, 403(b) plan or 457 plans can be rolled directly into a Roth IRA. Traditional Roth IRA conversion rules are applicable. Any taxes due on the distribution must be paid at the time of the rollover, but Roth IRA annual contribution limits would be waived to allow the rollover.

Distribution Notice and Consent Period

Effective January 1, 2007

The notice and consent period for distributions is extended to 180 days before distribution commences. The notice must include an explanation of the consequences of a participant's failure to defer receipt.

Educate your participant on how long a distribution could take.

Distributions for Qualified Military Reservists

Effective for qualified military reservist called to active duty between September 11, 2001, and December 31, 2007

Under PPA, military reservists who are called to active duty for at least 180 days are permitted to take a distribution from a qualified retirement plan without incurring a 10% premature distribution penalty.

Share with any employees before they go on active tour of duty, the options available to them.

Accelerated Vesting

Effective January 1, 2007

PPA requires that all employer contributions to a defined contribution plan, including profit sharing and matching, must be subject to a vesting schedule that is at least as favorable as the maximum permitted top-heavy vesting schedules (currently six-year graded or three-year cliff).

Do a check-up on your plan to make sure you are following these guidelines.

Participant Statements

Effective January 1, 2007

Statements may be delivered in written, electronic or other appropriate form to the extent that such form is reasonably accessible to the recipient. Statements must be provided at least quarterly to all participants in a participant-directed plan and at least annual to all other defined contribution plans.

Statements must include the following:

- An explanation of any limitations or restrictions on a participant's ability to direct an investment.
- Information on the importance of a well-balanced and diversified portfolio.
- A statement indicating that investments of more than 20% of a participant's account balance in a security of one entity creates the risk of that account may not be adequately diversified.
- The value of assets as of the most recent evaluation date determined on the basis of the latest available information.
- The vested portion of the account balance.
- An explanation of any offset that may be applied in determining benefits under a plan, including permitted disparity or a floor-offset arrangement.

AUL will be adjusting its first-quarter statements for full service clients to meet this requirement.

Participant Investment Advice

Effective January 1, 2007

ERISA fiduciary standards and prohibited transaction rules often inhibit employers from furnishing investment information. PPA creates a new prohibited transaction exemption permitting plan fiduciaries to be compensated for giving participants investment advice, subject to rules. For ERISA-covered, employer-sponsored plans, a fiduciary that is a registered investment company, bank, insurance company or registered broker-dealer will be allowed to give investment advice to participants without engaging in a prohibited transaction if either (1) its fee does not vary depending on the investment choices that participants make or (2) its recommendations are based on a computer model certified by an independent third party.

The ProNvest service offered by AUL satisfies all of the guidance set forth in PPA. Talk to your sales or service rep about adding ProNvest to your plan.

Provisions Effective in 2008

Incentives for Adding Automatic Enrollment

Effective January 1, 2008

PPA encourages employers to add automatic enrollment to their plan by offering certain incentives. There are two different provisions, depending on the structure of the automatic enrollment feature:

Qualified Safe Harbor Automatic Enrollment

Under this provision, a plan can be exempted from ADP/ACP tests and would also be deemed to satisfy top-heavy requirements. In order to qualify for this exemption, the plan must satisfy the following criteria:

- The plan includes automatic enrollment with an "automatic increase" feature. The automatic deferral percentage must be:
  - Between 3 and 10 percent in the initial year of participation
  - At least 4 percent in the second year of participation
  - At least 5 percent in the third year of participation
  - At least 6 percent in any subsequent years of participation
- The employer makes either a 3 percent non-elective contribution OR a match of at least 100 percent of the first 1 percent deferral and 50 percent of the next 5 percent deferral. This required employer contribution must be 100 percent vested after no more than 2 years of service.
- An annual notice must be distributed to employees.
- New hires and employees who did not make an affirmative election to participate must be automatically enrolled; employees who are already participating or have elected not to participate do not have to be automatically enrolled.

Eligible Automatic Enrollment

Effective January 1, 2008

Under this provision, a plan would not be exempt from ADP/ACP testing, but they would have up to six months after the end of the plan year to make their ADP/ACP refunds without incurring a 10% excise tax. (Otherwise, ADP/ACP refunds must be distributed within 2½ months.) In order to qualify, a plan must have an automatic enrollment feature that includes:

- A uniform automatic enrollment percentage
- A default investment that meets the Department of Labor requirements
- An annual notice to employees

PPA also clarifies that ERISA pre-empts any state laws that might prohibit automatic enrollment, as long as an annual notice is provided to employees.

New Default Investment Requirements

The PPA also discusses the default investments to be used in automatically enrolling plan participants into qualified retirement plans 401(k), 403(b) and 457 plans. Contributions made for automatic enrollees who have not elected otherwise must be invested in accordance with guidelines to be established under Department of Labor regulations.

Talk to your CSC about adding auto enrollment for potential savings increase.

Taxability of Excess Contributions

Effective January 1, 2008

Corrective distributions made within two and one-half months following the end of the plan year will be taxed in the year of distribution. In addition, corrective distributions from plans that include an automatic enrollment arrangement made within six months following the end of a plan year will be taxed in the year of distribution. Gap period earnings do not have to be included in determining corrective distributions.

Fiduciary Relief During Blackout Periods

Effective January 1, 2008

PPA provides for 404(c) fiduciary relief during blackout periods provided certain conditions are satisfied:

- Investments in participant directed plans are mapped to new options that are similar in terms of risk and return.
- Participant must be permitted to provide investment direction in lieu of mapping.
- Notice is provided to participants at least 30 days in advance of the blackout that compares existing investment options to the new investment options and explains the participant's right to direct investment to the new options in lieu of mapping.

Electronic Form 5500

Effective January 1, 2008

Under PPA, employers must make an electronic copy of Form 5500 available to employees via their Intranet site. To assist with this requirement, AUL began providing Form 5500 electronically earlier this year.

This summary is intended to highlight provisions of the PPA that significantly impact qualified retirement plans, 403(b) plans and 457 plans. It is not a comprehensive summary of all of the provisions enacted by PPA.

Most plans are not required to be amended to include the changes required by PPA until the last day of the plan year beginning on or after January 1, 2009.

About OneAmerica and AUL

OneAmerica Financial Partners, Inc., traces its solid foundation more than 125 years in the insurance and financial services marketplace. Its nationwide network of companies and affiliates offers retirement plan products and services; individual life; group insurance; long-term care insurance; and annuities. Headquartered in Indianapolis, IN, American United Life Insurance Company® (AUL) is the founding member of OneAmerica®. AUL is licensed and authorized to conduct life insurance business in 49 states and the District of Columbia.

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.

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