

Pension Protection Act

Pension Protection Act (PPA)

Public Policy

- Encourage greater participation in employer-sponsored defined contribution plans.
- Provide greater certainty to plan fiduciaries in the form of a safe harbor from fiduciary liability for default investments under an automatic enrollment arrangement.
- The Department of Labor (DOL) directed to implement relief to plan fiduciaries whose plans include an automatic enrollment arrangement.
- QDIA – Qualified Default Investment Alternatives are defined by DOL as safe harbor default investments in regulations issued September 27, 2006.

Pension Protection Act (PPA)

TOTAL REFORM OF DEFINED BENEFIT PLAN MINIMUM FUNDING STANDARDS

- Funding shortfalls generally must be fully funded (to 100% rather than 90%) over not more than 7 years
- Restrictions on asset smoothing
- Use of yield curve to value liabilities
- New mortality table with projections
- Higher contributions for “at risk” plans
- Increase in limit for deductible contributions
- Employer concerns with financial risks and contribution volatility remain

PPA ENHANCEMENTS TO DEFINED CONTRIBUTION PLAN SAVINGS

EGTRRA Qualified Plan Changes Made Permanent

- 2010 sunset qualified plan enhancements eliminated
- Increased contribution, benefit, and compensation thresholds
- Simplified top-heavy rules
- SAVER'S credit made permanent.
 - Was set to expire in 2006
 - Income eligibility brackets indexed beginning in 2007

PPA ENHANCEMENTS TO DEFINED CONTRIBUTION PLAN SAVINGS

Investment Advice to Participants

- New prohibited transaction exemption
- Outside “fiduciary advisor” to provide investment advice to plan participants (for a fee), but only if advisor
 - satisfies very broad disclosure obligations
 - maintains detailed records to show compliance
- The normal fiduciary duties of prudence (e.g., in selecting and monitoring the investment choices and the fiduciary advisor) continue to apply

PPA ENHANCEMENTS TO DEFINED CONTRIBUTION PLAN SAVINGS

Investment Advice to Participants (cont.)

- Two ways to qualify as an “eligible investment advice arrangement”
- Fees unrelated to participant investment choices; or
- Investment advice using a computer model
- Detailed disclosures required to be made before the initial advice given, as well as annually thereafter.

PPA ENHANCEMENTS TO DEFINED CONTRIBUTION PLAN SAVINGS

Qualified Default Investment Alternative

- Extension of ERISA Section 404(c) relief mechanism
- Fiduciaries will be protected from liability for the default investment selection for participants who provide no affirmative investment instructions
annual notice requirement
- Subject to DOL regulations expected during February, 2007

PPA ENHANCEMENTS TO DEFINED CONTRIBUTION PLAN SAVINGS

Benefit Statement Requirements For All Plans

- Benefit statements required
- Quarterly for participant directed plans; and
- Annually for other DC plans
- Statement must “on the basis of the latest available information” show amount of vested benefits and other required information
- See DOL Field Assistance Bulletin 2006-3

PPA ENHANCEMENTS TO DEFINED CONTRIBUTION PLAN SAVINGS

401(k) “Qualified” Automatic Contribution Arrangements (ACA)

- Effective for 2008
- Automatic enrollment unless participant opts out
- Automatic deferral of not more than 10% of compensation and *at least* 3% in the first year, 4% in the second year, 5% in the third year and 6% in later years
- Applies only participants who have not previously elected to participate
- Minimum match contribution on deferrals to 6% with 2 year cliff vesting requirement

Pension Protection Act (PPA)

QDIA

- Life Cycle Fund/Target Retirement Date
- Balanced Fund
- Managed Accounts

Department of Labor
29 CFR Part 2550

Pension Protection Act (PPA)

Stable Value Fund

- Safety of Principal
- Intermediate Bond Portfolio Returns
- Steady Growth Without Volatility
- Benefit Responsive Liquidity – Participants Transact at Book Value

A Stable Value Fund is not a QDIA. The Stable Value Investment Association (SVIA) mounts a lobbying campaign.

Pension Protection Act (PPA)

Product Outcomes

- Retail Stable Value – SEC failure to provide Fidelity Investments with a no-action letter.
- Stable Value + Fund™ – transition the QDIA (safe harbor accumulation) to a fund that provides retirement income security options to aging participants.
 - Inside Build Up
 - Annuitization
 - Future-Income Denomination™

Stable Value + Fund™ is a trademark of Stable Value Solutions LLC. Future-Income Denomination™ is a trademark of Retirement Engineering, Inc.

Pension Protection Act (PPA)

Implications

- Plan participants (not IRA account holders) have entrée to a stable, principal protected fund with income optionality.
- Stable Value Fund retains assets; attracts assets from other funds offered by the plan.

Pension Protection Act (PPA)

The PPA Presents New Market Opportunities

- New product combinations to meet both distribution and income needs
- New products to take advantage of regulatory changes
- New target markets and new levels of access (e.g. investment advice rules)

Pension Protection Act (PPA)

Capture The New Market Opportunities

- Combine regulatory and intellectual property analysis to fully exploit opportunities
- Develop and protect new products and features within regulatory rules
- Assess and build new strategic relationships for development, marketing and distribution
- Develop branding strategies and marketing models to exploit new levels of access to consumers