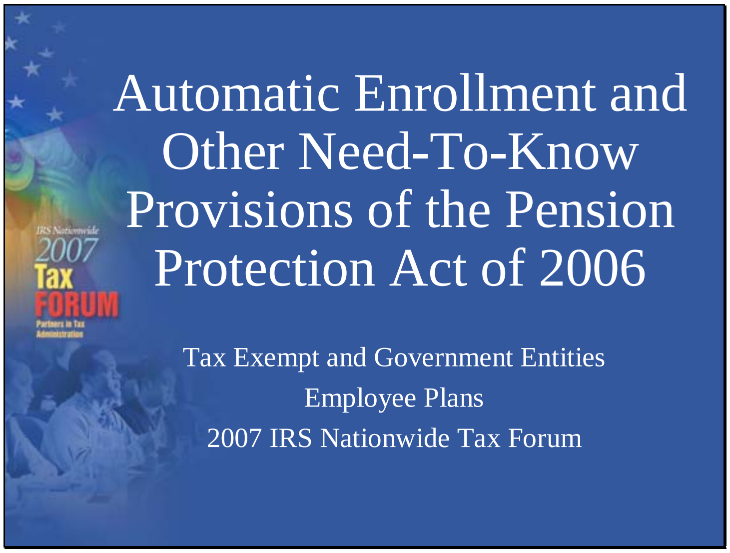
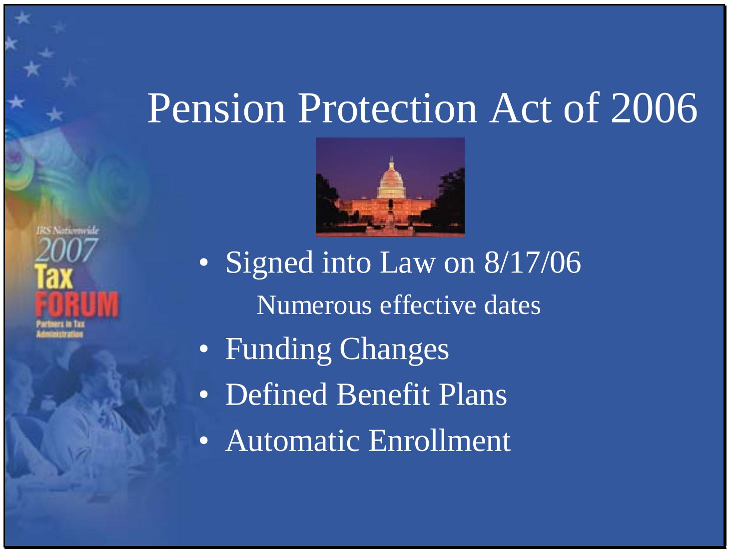
Slide 1



Good morning/afternoon.

Introduce yourself and provide your qualifications for speaking.

Slide 2



How many of you read or heard about the plight of the retirement plans of several of the major carriers in the airline industry? In response to that crisis, the Pension Protection Act of 2006 was signed into law on August 17, 2006. I'll be calling this law the "PPA" throughout the presentation. The PPA is the most sweeping pension legislation in over 30 years and includes a number of significant tax incentives to enhance retirement savings for millions of Americans. The law is hundreds of pages long and has numerous provisions and effective dates. This session will focus on the need-to-know provisions of the new law that are currently effective and relate to defined contribution plans. As the majority of you in this room don't deal with defined benefit plans, I will not be focusing on the funding changes or other changes to defined benefit plans brought about by the law. As an added bonus, I will give you information on the changes made to the Automatic Enrollment rules by the PPA. If you have questions in these areas or other areas not covered in today's presentation, please either stop by our booth in the exhibit hall and speak with one of our Employee Plans Specialists staffing the booth or visit our web page dedicated to the Pension Protection Act at www.irs.gov/ep.

This presentation, along with the notes will be posted to our web site, www.irs.gov/ep, in September after the final Tax Forum in Orlando. So if you miss anything during my discussion, please visit our web site to view the presentation.

Slide 3

First, I'll talk to you about Automatic Enrollment, which has gotten a lot of press. This is not a new concept. It has been around for a long time. What is new are some new rules regarding state wage laws and fiduciary relief, both of which were effective on the date of enactment of the PPA, August 17, 2006. Additionally, the law provides for an optional nondiscrimination safe harbor, which is not effective until 2008. Let me give you a little background.

In 1998, Treasury and the IRS issued Revenue Ruling 98-30 clarifying that the definition of a cash or deferred arrangement includes automatic enrollment in 401(k) plans for newly hired employees. The ruling provided as long as an employee receives notice of the availability of an election to receive compensation in cash and the employee has a reasonable period to make the election before the date on which the cash is currently available, then a cash or deferred election will not fail to be made under a qualified CODA merely because, when an employee fails to make an affirmative election with respect to an amount of compensation, that amount is contributed on the employee's behalf to a trust. That was a mouth-full. In other words, the new employee automatically has salary deferrals deducted from his or her paycheck and placed into the plan unless the employee affirmatively elects to not have amounts withheld. Building on that beginning, Revenue Ruling 2000-8, allowed automatic enrollment for current employees as well. Later rulings allowed for automatic enrollment in 403(b) plans and 457 plans. In December 2004, final regulations under section 401(k) were issued, and they incorporated these automatic enrollment rules for 401(k) plans.

There was concern by employers that auto enrollment would be in violation of state law requiring written notice from an employer before any amounts are withheld from an employee's paycheck. The PPA clarifies that ERISA preempts state laws that would impede auto enrollment plans, provided such plans comply with Department of Labor regulations on default investments. It also requires that proper notification is provided to the employees. This provision of the law was effective on the date of enactment, August 17, 2006. I'll talk about the notification requirements in just a minute.

Another employer concern with regard to auto enrollment was fiduciary liability when investing amounts automatically withheld from employees' paychecks without the employees' investment directions. Many employers were investing the contributions in conservative money market funds in order to avoid fiduciary liability. The PPA provides fiduciary relief for employers if the investment options chosen meet the standards described in the Department of Labor's proposed rule and the participants are given notice before the beginning of each year which explains their rights to make investment elections and how amounts will be invested in the absence of an affirmative investment election from the participant.

The proposal establishes the following conditions for fiduciary relief:

- Assets must be invested in a "qualified default investment alternative" or "QDIA" as defined in the proposal.
- Participants and beneficiaries must have been given an opportunity to provide investment direction, but failed to do so.

- A notice must be furnished to participants and beneficiaries 30 days in advance of the first investment, and at least 30 days in advance of each subsequent plan year, and must include: a description of the circumstances under which assets will be invested in a QDIA; a description of the investment objectives of the QDIA; and an explanation of the right of participants and beneficiaries to direct investment of the assets out of the QDIA.
- Any material, such as investment prospectuses and other notices, provided to the plan by the QDIA must be furnished to participants and beneficiaries.
- Participants and beneficiaries must have the opportunity to direct investments out of a QDIA with the same frequency available for other plan investments but no less frequently than quarterly, without financial penalty.
- The plan must offer a "broad range of investment alternatives" as defined in the Department's other regulations under section 404(c) of ERISA.

The Department of Labor's proposed rule can be found on the DOL's web page. You can access DOL's PPA web page via our PPA web page at www.irs.gov/ep.

Slide 4

Finally, the PPA provides for an optional nondiscrimination safe harbor for automatic enrollment 401(k) plans for plan years beginning on or after January 1, 2008. Plans that meet the following requirements will be considered to meet the nondiscrimination ADP and ACP tests and top-heavy tests.

- Set up automatic enrollment for new hires. It is permissible, but not required, to set up automatic enrollment for current employees.
- Notify the employees before each plan year that they have the right to opt out of or change the amount of their contributions and how the contributions will be invested absent any employee election, in plans that offer investment alternatives. This notification must be given within a reasonable time to allow the employee to make an election regarding the contributions and investments.
- Set the default contribution of at least 3% of pay (and not more than 10%).
- Escalate the default contribution by at least 1% per year to 6% after 3 years (assuming the initial default contribution is 3%).
- Provide matching contributions of at least: 100% of the NHCE’s contributions that do not exceed 1% of pay and 50% of the NHCE’s contributions that are greater than 1% but less than or equal to 6% of pay.

- Alternatively, provide non-matching contributions of 3% of pay for NHCEs.
- The rate of match for the HCEs cannot be greater than the rate of match for NHCEs.
- Vest these employer contributions after no more than 2 years of service.
- These contributions are subject to the same distribution restrictions as elective deferrals except they can't be distributed for hardship.

What happens if your client sets up automatic enrollment for their employees, notifies them that they will be auto-enrolled and invests their contributions in accordance with the rules set out by the DOL but an employee, after the fact, wants his or her contributions back? The law allows employees to elect during the first 3 months after the start of the automatic contributions to receive a permissible withdrawal of the automatic contributions and accumulated earnings.

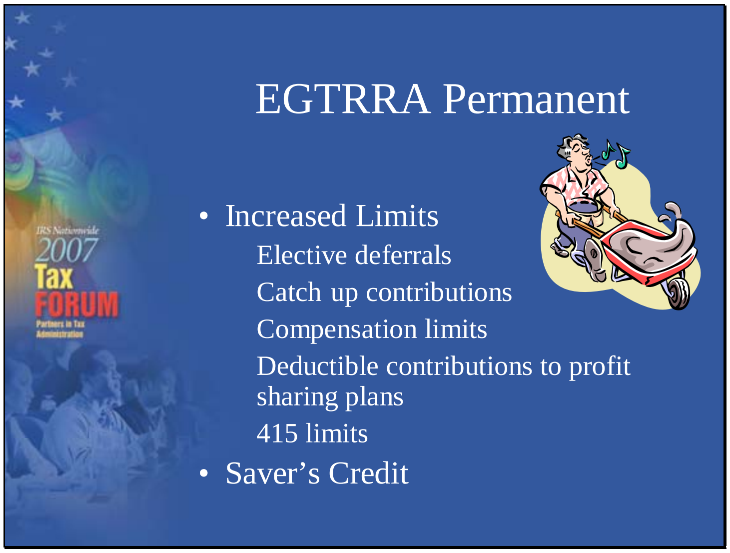
The permissible withdrawals are:

- Disregarded for purposes of the ADP test
- Not eligible for rollover treatment
- Taxed in the year paid
- Exempt from the 10% early withdrawal additional tax

This is an optional feature. The plan does not have to offer permissible withdrawals but if it does, the plan has to meet additional requirements.

As an aside, the PPA changed the law to provide that any distribution of excess contributions under Code section 4979(f)(1) is taxed in the year distributed. This includes traditional 401(k) plans as well as the automatic enrollment plans. The 401(k) regulations will be updated for this law change.

Slide 5



Now, let's go back to the provisions of the PPA which are currently effective.

The *Economic Growth and Tax Relief Reconciliation Act of 2001,* also known as EGTRRA, substantially increased pension and individual retirement account contribution limits, as well as making other improvements in pensions and retirement savings through enhanced vesting, portability and reduced regulatory burdens. All of the following provisions of EGTRRA had a 2010 sunset date, meaning that at the end of 2010 the increased limits were scheduled to disappear. The PPA makes these favorable changes permanent.

Some of the changes included in EGTRRA were:

- Increased elective deferrals to 401(k), 403(b) or 457 governmental plans to $11,000 in 2002 with increases in $1,000 annual increments until it reached $15,000 in 2006. After 2006, the limit was adjusted for inflation in $500 increments. In 2007 that limit is $15,500.
- Created a "catch-up" elective deferral contribution for employees age 50 and over. The limit was $1,000 in 2002 with $1,000 annual increases until

it reached $5,000 in 2006. After 2006, the limit was adjusted for inflation in $500 increments. In 2007 the catch-up contribution limit is $5,000.

- The amount of compensation that could be considered for plan purposes increased to $200,000 for years beginning in 2002. This limit was indexed for inflation in $5,000 increments. In 2007, the compensation limit is $225,000.
- The deductible limits for profit-sharing and stock bonus plans was increased to 25% of aggregate participant compensation. This limit was previously 15%.
- Finally, the 415 limit was increased to the lesser of $40,000 or 100% of compensation for limitation years beginning in 2002, up from $35,000 or 25% of compensation in 2001. Again this limit was indexed for inflation. In 2007 the limit is $45,000.

I'd like to add a couple of asides here. First, in order to take advantage of the increased EGTRRA limits, the plan must be amended to do so. We have found this error frequently on audit, especially in examinations of SIMPLE IRA and SEP plans. Also, the new indexed limits are announced annually, usually in October. We post all of these limits on our web page, www.irs.gov/ep. If you ever need to find a limit, go to our cost-of-living adjustment page under "EP Published Guidance." It features a table with all of the limits back to 1989.

You all are probably familiar with the Saver's Credit. If an individual makes eligible contributions to an employer-sponsored retirement plan or to an individual retirement arrangement (IRA), he or she may be able to take a tax credit. The amount of the saver's credit is based on the contributions made and the credit rate, depending on the individual's adjusted gross income and filing status. The lower the income, the higher the credit rate. The PPA makes permanent the Saver's Credit of up to $1,000. Without this extension, the credit would not have been available after 2006. The law also indexes the Saver's Credit income limits to prevent this benefit from being eroded by inflation.

Slide 6

Another EGTRRA provision that was made permanent by the PPA is the designated Roth account option for 401(k) and 403(b) plans under Section 402A.

Beginning in 2006, a 401(k) or 403(b) plan (but not a SARSEP or SIMPLE IRA plan) was allowed to permit an employee to irrevocably designate some or all of his or her elective contributions under the plan as designated Roth contributions. The plan must contain language that allows for these Roth contributions.

Briefly, designated Roth contributions are elective contributions that, unlike pre-tax elective contributions, are currently includible in gross income. If a plan is going to provide for designated Roth contributions, it must also offer pre-tax elective contributions.

A **designated Roth account** is a separate account under a 401(k) or 403(b) plan to which designated Roth contributions are made, and for which separate accounting of contributions, gains, and losses is maintained.

Designated Roth contributions are treated the same as pre-tax elective contributions for most purposes.

A **qualified distribution** of designated Roth contributions is excludable from gross income. A qualified distribution is one that occurs at least 5 years after the year of the participant's first designated Roth contribution (counting such first year as part of the 5) and is made:

- On or after attainment of age 59½,
- On account of the participant's disability, or
- On or after the participant's death.

If the distribution is not a qualified distribution, then the accumulated earnings will be subject to tax, and additional taxes may apply.

We talked about these designated Roth accounts at last year's Tax Forum and in case you missed it, the presentation, along with the notes can be found on our web site. We have a web page dedicated to designated Roth accounts. It can be found by selecting "Types of Plans" in the left navigational bar on the Retirement Plans Community page. We also have Publication 4530, *Designated Roth Accounts Under a 401(k) or 403(b) Plan* at our exhibit booth that gives you additional information on these accounts.

The PPA also indexes the income limits for traditional, spousal and Roth IRAs to prevent these benefits from being eroded by inflation.

Slide 7

Before I get too involved in this slide, I want to let you know that this presentation is just going to cover distributions as they relate to the changes made by the PPA. If you would like more in-depth information on distributions, please sit in on our “Tax Issues on Distributions from Retirement Plans” presentation tomorrow morning/afternoon.

Now, back to the slides

Certain distributions from qualified retirement plans are subject to notice and consent requirements. In order for a consent to be effective, a notice must be provided to plan participants at least 30 days, but not more than 180 days (instead of the prior 90 days) before distributions stating the participant’s rights regarding cash-outs (explaining the consequences of not deferring the distribution), eligible rollover distributions and survivor annuities. IRS Notice 2007-7, which can be found on our PPA web page at www.irs.gov/ep, provides for a “safe harbor” under which a plan administrator will be considered to have met the new notice requirements. Under the safe harbor, notices must be written in a manner that can be understood by an average participant and must include, in the case of a defined contribution plan, a description of the investment options (including fees) available if the distribution is deferred and the portion of the summary plan description that contains any special rules which might materially affect the participant's decision to defer.

One PPA change that has generated a lot of interest deals with qualified charitable contributions. IRA owners who are at least age 70 ½ at the time of the distribution are now allowed to direct the custodian of their IRA to make a rollover directly to a specified charitable organization. This rule does not apply to contributions from on-going SEP IRAs or SIMPLE IRAs. Up to $100,000 in contributions can be excluded from the IRA owner's income each year. It only applies to contributions in tax years 2006 and 2007.

The PPA modified the hardship distribution rules, effective August 17, 2006, to allow for distributions for financial hardship relating to medical, tuition and funeral expenses for a primary beneficiary under the plan. For this purpose, a "primary beneficiary under the plan" is an individual who is named as a beneficiary under the plan and has an unconditional right to all or a portion of the participant's account balance under the plan upon the death of the participant. The other requirements applicable to financial hardships must also be satisfied.

The PPA provides that distributions from an IRA or distributions of elective deferrals from a pension plan taken by members of the National Guard and Reserves called to active duty for a period in excess of 179 days after 9/11/01 and before 12/31/07 are not subject to early withdrawal penalties. If the reservist has already made the withdrawal and paid the additional tax, he or she may file an amended return no later than August 16, 2007, or the time for filing a claim for refund, if later, to obtain a refund.

If a reservist made a withdrawal that qualifies for this exception, he or she may repay the amount withdrawn into an IRA by the later of two years from the end of the active duty period or August 17, 2008. The amount repaid may not be deducted and the normal limits on IRA contributions do not apply to the repayments.

The law allows defined benefit and money purchase pension plans, for plan years beginning after 12/31/06, to provide for distributions to employees who have attained age 62 and who have not separated from employment at the time of the distributions.

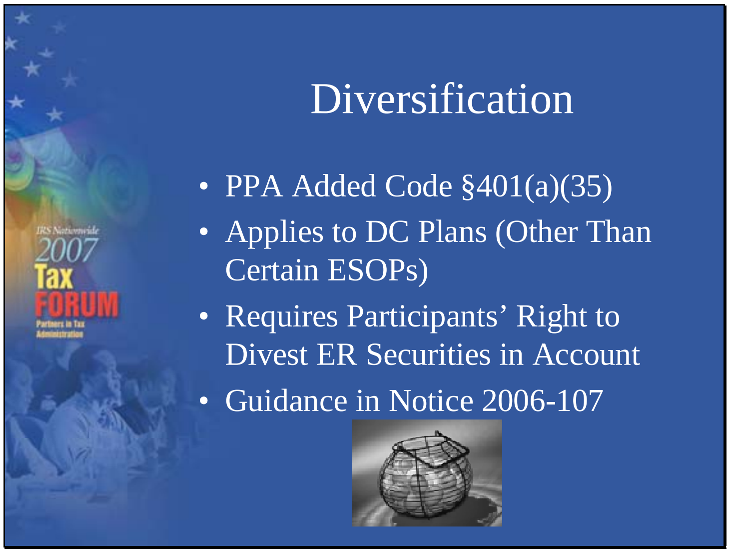
If a participant in a retirement plan dies leaving his or her accrued benefit under the plan to a nonspouse designated beneficiary, the designated beneficiary may, beginning in 2007, be able to roll over the inherited funds into an IRA set up to receive such funds. The rollover must be accomplished by a direct trustee-to-trustee transfer and the retirement plan must provide for this type of rollover. Also, the distribution must otherwise be eligible for rollover, meaning, for example, that required minimum distributions cannot be rolled over.

This is optional. The plan does not have to offer direct rollovers to nonspouse beneficiaries. However, if it is offered, it must be offered in a nondiscriminatory manner.

Which of these require a plan amendment? Notice & Consent may need a plan amendment depending on plan language; Hardships, Qualified Reservists Distributions, In-Service Distributions and Rollovers to Nonspouse Beneficiaries need plan amendments. These are discretionary amendments. Under section 1107 of PPA, a plan amendment made pursuant to any amendment made by PPA generally may be retroactively effective, if, in addition to meeting the other applicable requirements, the amendment is made on or before the last day of the first plan year beginning on or after January 1, 2009 (January 1, 2011 in the case of a governmental plan).

Notice 2007-7, which can be found on the PPA web page at www.irs.gov/ep, provides more in-depth information in Q&A format on rollovers to nonspouse beneficiaries, notice and consent, qualified charitable distributions and modifications of the hardship distribution rules.

Slide 8



Has anyone in the audience heard of Enron? I doubt there is anyone out there who hasn't. The news had a lot of stories of folks who thought they were set for retirement one day and the next found out that they were going to be working for a very long time. This was Congress' response to protect employees from having all of their eggs in one basket.

The PPA added a new Code section, 401(a)(35), which provides that defined contribution plans (other than certain employee stock ownership plans) holding employer stock must provide participants with the right to divest any employer securities in their accounts and reinvest those amounts in diversified investments. Any participant whose elective deferral account or employee contribution account is invested in employer securities must be given the opportunity to divest those securities and reinvest their investments. For amounts attributable to matching and non-elective contributions, participants must be allowed to divest themselves of any employer securities upon completion of 3 years of service. A 3-year phase-in period applies to employer contributions in existing plans. The plan must offer at least 3 investment options which are diversified and with different risk and return characteristics.

The law also requires a plan to provide individuals with at least a 30-day written notice describing diversification rights and providing information on the importance of diversifying investments. The diversification and notice requirements are generally effective for plan years beginning after December 31, 2006. These requirements apply only to plans with publicly traded employer securities.

The IRS issued Notice 2006-107 to provide transitional guidance until regulations can be issued at a later date. A copy of this Notice can be found on the PPA page of the Retirement Plans Community web site, www.irs.gov/ep.

Notice 2006-107 provides a Model Notice which can be adapted for particular plan provisions and given to employees.

Slide 9

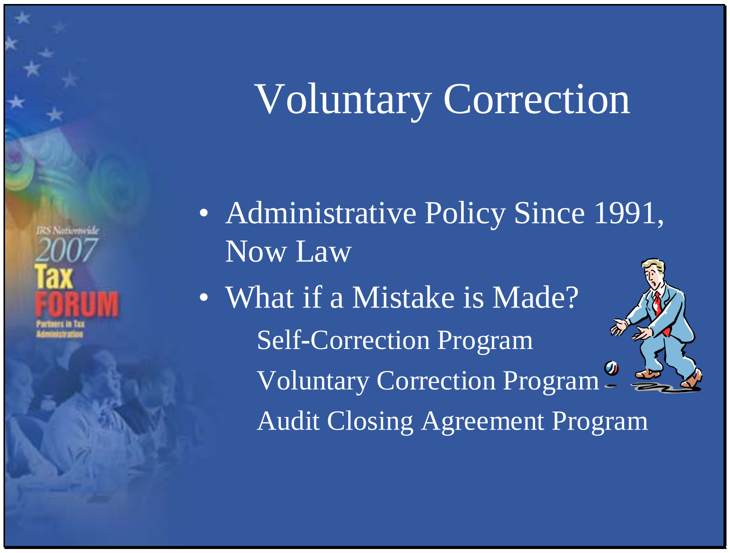
Beginning in 2007, for refunds from their 2006 tax returns, PPA directs the Secretary of the Treasury to make or modify a form to enable taxpayers to have their tax refund directly deposited into their IRA account. The limit on the amount of IRA contributions still applies. Form 8888 is used for this purpose.

All employer contributions made to a defined contribution plan for plan years beginning after 12/31/2006 must be vested using either a three-year cliff or two-to-six-year phased vesting schedule. Contributions made for earlier plan years can remain under the old vesting schedule if the plan separately accounts for the contributions and earnings under the different vesting schedules. However, this is optional, if the employer so chooses, the new vesting schedule can be applied to the entire account balance, rather than keeping separate accounts.

The Internal Revenue Code provides that if certain disqualified persons provide investment advice for a fee to plan participants, it may be a prohibited transaction, which is subject to correction and an excise tax.

The PPA provides an exemption for “eligible investments advice arrangements.” An “eligible investment advice arrangement” is an arrangement that either provides that any fees (including any commission or other compensation) received by the fiduciary advisor for investment advice or with respect to the investment of plan assets do not vary depending on the basis of any investment selected, or uses a computer model under an investment advice program that meets certain rules of ERISA. “Eligible investment advice arrangements” will be subject to a new annual independent compliance audit beginning in 2007. The Department of Labor has issued Field Assistance Bulletin 2007-01 discussing these exemptions. You can access the DOL information on the Pension Protection Act via our PPA web page, www.irs.gov/ep.

Slide 10



How many of you are aware of our Voluntary Correction program, also known as the Employee Plans Compliance Resolution System, or EPCRS? It is a group of correction programs that can be used to correct a plan error. The Code is written in such a way that if a mistake is made in the operation of a plan, the difference between the plan being tax-qualified or not qualified is a bright line. Pass/Fail. Yes/No. So, under the letter of the law, if one mistake is made, no matter how slight or insignificant, the plan loses its tax-exempt status and all favorable tax benefits associated with it. The IRS has had an administrative policy since 1991 that allows a plan that has an error to fix the error retroactively and treat the plan as if it had met all the requirements. The PPA provides that the Treasury has the full authority to establish and implement the Employee Plans Compliance Resolution System, including the authority to waive income, excise or other taxes and to ensure that any tax, penalty or sanction is not excessive and bears a reasonable relationship to the nature, extent and severity of a plan mistake. The Treasury is instructed to give special attention to the concerns and circumstances that small employers face with respect to compliance and correction of plan mistakes.

We are currently developing information to post to our web site to provide small businesses with additional information on the program. If this is a topic that you would like to hear more about in a future Tax Forum presentation, please include it in your comments.

Now, I'd like to talk a little about the particulars of the Voluntary Correction Program.

The IRS has helpful correction programs that provide incentives for finding and correcting mistakes earlier rather than later. If an error is made in the plan's operation, the employer may want to correct the error using one of the IRS correction programs.

The IRS frequently finds the following mistakes in retirement plan examinations:

- not covering the proper employees
- not giving employees required information
- not depositing employee deferrals timely
- not depositing employer contributions timely
- not limiting employee deferrals and employer contributions to the proper maximum limits

Mistakes don't go away by themselves. The IRS correction programs are structured to provide financial incentives for finding and correcting mistakes earlier rather than later. In fact, many mistakes can be corrected easily, without penalty and without notifying the IRS.

The IRS system of retirement plan correction programs, the Employee Plans Compliance Resolution System (EPCRS), helps business owners protect participant benefits and keep their plans within the law.

EPCRS includes:

- Self-Correction Program (SCP) - With this program, you or your client can find and correct a mistake before an examination. It will cost less if you find the error and fix it. A problem found within two years of when it first occurred can often be self-corrected. If an error has continued for longer than 2 years, your client may have to pay a fee.
- Voluntary Correction Program (VCP) - You may correct the plan's mistakes with help from the IRS. There is a fee involved with this program.
- Audit Closing Agreement Program (Audit CAP) - If the IRS examines the plan and finds an error, the problem can still be corrected. The fee will be larger than if you or your client had found and fixed the error under the Self-Correction Program or the Voluntary Correction Program.

We have additional information on the IRS Correction Programs on our web site under "Correcting Plan Errors." Also, you can either stop by our booth and pick up or order on-line our Pub 4050, Retirement Plans Correction Programs CD-ROM.

Slide 11

You all have heard about hybrid vehicles, correct? Well, the PPA has its own version of the hybrid available for plan years beginning after 2009, called the Combined Defined Benefit Plan and Qualified Cash or Deferred Arrangement or the DB(k). It is a new type of plan for small employers (with not more than 500 employees) consisting of a combination defined benefit and defined contribution plan where the assets are held in a single trust. This type of plan will require a minimum DB benefit and automatic enrollment with a minimum employer matching contribution for the 401(k) segment of the plan. It will also require minimum vesting provisions. We will keep you posted about these new plans, or when they'll be available for a test drive, in future Tax Forum sessions.

Other items down the road (no pun intended) include: For plan years beginning after 2006 – that is for the 2007 filing of the Form 5500 - for one-participant plans, the threshold for exemption from filing increases from $100,000 in assets to $250,000 in assets. The law also requires the Department of Labor and Treasury to provide simplified filing for plans that cover fewer than 25 participants after 2006.

Generally, the provision of the PPA may be retroactively effective, if the plan is amended no later than the last day of the first plan year beginning on or after January 1, 2009 (January 1, 2011 in the case of a governmental plan). Terminating plans must include the applicable PPA provisions that are in effect at the time of termination.

Slide 12

We at the IRS have developed many tools to assist you and your clients in the retirement plan area, whether your question is “How do I choose a retirement plan?” or “How much money can I contribute to my retirement plan?” or “This plan isn’t working for me anymore. How do I terminate it?”

You can visit our web site at www.irs.gov/ep. The Retirement Plans Community web page can be found on the main www.irs.gov landing page. You will find information for “Benefits Practitioner,” “Plan Participant/Employee” and “Plan Sponsor/Employer.” The pages are populated with all of the retirement plan information that you have come to expect from EP. One recent addition to the web page is the page dedicated to the Pension Protection Act of 2006 that I have been referencing throughout today’s presentation.

There are two different ways that you can discuss your questions with a retirement plan specialist. You can call our Customer Account Services at (877) 829-5500. This is a toll-free number. The call center is open 8:30am to 4:30pm Eastern Time.

If you would prefer, you can e-mail your questions to RetirementPlanQuestions@irs.gov. All questions submitted via e-mail must be responded to via telephone, so please remember to include your phone number in your message and a customer service representative will call you with the answer to your questions.

Finally, we have two free Newsletters that you can subscribe to. The first is the *Employee Plans News*. This newsletter is geared toward the practitioner community and is more technical and involved than our newsletter geared toward plan sponsors, *Retirement News for Employers*. Each is an electronic newsletter and is posted on our web site as a PDF document each quarter. Being a web-based product, the newsletters make an excellent reference guide as they are chock-full of embedded links to guidance sources, products and other sites.

Subscribing to these newsletters will keep you and your clients abreast of all the latest news regarding retirement plans, legislation, trends and tips on various subjects, as well as keeping you informed of the latest product releases from the office of Employee Plans Customer Education & Outreach!

Subscribing is easy. Just go to “Newsletters” under our web page, www.irs.gov/ep, click on “Employee Plans News” or “Retirement News for Employers,” click on “Subscribe,” then provide us with your e-mail address. That’s all it takes.

You will receive a message in your e-mail inbox alerting you to when our latest issues or Special Editions are posted on our web page with a link directing you to the newsletter when you are ready to read it.

Please be sure to attend our presentation on “Tax Issues on Distributions from Retirement Plans,” which will discuss the tax issues arising from distributions from retirement plans before retirement, at retirement and after retirement.

Information will also be provided on what to do if a mistake is made on a distribution to avoid jeopardizing the tax-qualified status of the retirement plan.

Thank you for your attention and please stop by the TE/GE booth for additional retirement plan information.