The "Economic Growth and Tax Relief Reconciliation Act of 2001" Makes Significant Changes to Retirement Plans and IRAs

WHO'S AFFECTED  The new law affects participants in and sponsors of qualified defined contribution and defined benefit plans, including governmental plans. It also affects participants in and sponsors of tax-sheltered annuity (403(b)) plans and section 457 plans, as well as holders of individual retirement accounts and annuities (IRAs).

BACKGROUND AND SUMMARY  On June 7, 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). This legislation contains major pension reform provisions. The new law enhances the retirement security of American workers and their families by increasing the contribution and benefit limits under employer-provided retirement plans and IRAs. In addition, it helps to expand pension coverage to more employees, increases the portability of pension assets to meet the needs of a mobile workforce, strengthens pension security and enforcement, and reduces regulatory burdens for plan sponsors.

Key changes include the addition of "catch-up contributions" for individuals age 50 and older to retirement plans and IRAs, increased deduction limits for employers, the repeal of the multiple use test, simplified top heavy rules, and the elimination of the "same desk rule" applicable to certain corporate transactions.

ACTION AND NEXT STEPS  The provisions of EGTRRA are generally effective for years beginning after December 31, 2001. Many of the contribution and benefit limit increases have staggered effective dates. All of the changes will expire after December 31, 2010, unless Congress takes steps to extend the provisions. The new law does not contain a special remedial amendment period in which plans must be amended to reflect the new provisions. We expect that the IRS will provide an extended time period for plan sponsors to amend their plans for EGTRRA.

IN THIS ISSUE

- Increasing Contributions and Benefits for Employees
- Changes to IRA Contribution Limits
- IRA Contributions to Retirement Plans
- Increased Limits for Retirement Plans
- Roth 401(k) and 403(b) Plans
- Income Tax Credit for Lower Income Savers

* Republished December 2004 to reflect Prudential Financial's acquisition of CIGNA's retirement business.
| **Faster Vesting for Matching Contributions** |
| **Hardship Withdrawal Changes** |
| **Expanding Pension Coverage to More Employees** |
| **Employer Deduction Limit Changes** |
| **Tax Credit for Small Employers** |
| **Top Heavy Rule Changes** |
| **Loans to Owner-Employees** |
| **Determination Letter Fee Eliminated for Small Employers** |
| **Increasing the Portability of Pension Assets to Meet the Needs of a Mobile Workforce** |
| **New Rollover Provisions** |
| **Default IRAs** |
| **Repeal of the Same Desk Rule** |
| **Forms of Payment** |
| **Changes to Cash-Out Provision** |
| **Strengthening Pension Security and Enforcement** |
| **Modifications to ERISA 204(h) Requirements** |
| **Defined Benefit Plan Funding Changes** |
| **Prohibited Allocations of Stock in S Corporation ESOP** |
| **Reducing Regulatory Burdens for Plan Sponsors** |
| **Repeal of Multiple Use Test** |
| **Coverage Rule Change for Tax-Exempt Entities Offering 401(k) Plans** |
| **Investment of ESOP Dividends** |
| **Timing Changes for Defined Benefit Plan Valuations** |
| **Miscellaneous Provisions** |
| **Minimum Required Distributions** |
| **Investment of Elective Deferrals in Employer Stock** |
| **Employer-Provided Retirement Advice** |
| **Changes Affecting Section 457 Plans** |
| **Sample Participant Communication** |

**Increasing Contributions and Benefits for Employees**

The new law allows employees to save more for retirement by increasing contribution and benefit limits under retirement plans and individual retirement accounts (IRAs). In addition, it provides added assistance to older workers so they can "catch-up" in their retirement savings.

**Changes to IRA Contribution Limits**

The maximum annual contribution limit for IRA contributions is raised to $5,000 by the year 2008. The limit is increased to $3,000 in 2002 through 2004, $4,000 in 2005 through 2007, and $5,000 in 2008 and thereafter. For tax years beginning after 2008, the $5,000 limit will be adjusted for inflation in $500 increments.

A special exception applies to individuals age 50 and older. These individuals are permitted to contribute an additional $500 to an IRA in the 2002 through 2005 tax years and an additional $1,000 in 2006 and thereafter. This limit will not be adjusted for inflation.
### IRA Contributions to Retirement Plans

Other IRA related changes include the addition of a "deemed IRA" to a qualified plan, a tax-sheltered annuity (403(b)) plan, or a governmental section 457 plan. For plan years beginning after December 31, 2002, plan sponsors may allow employees to make voluntary employee contributions to an account under the plan that meets the IRA requirements. These contributions may be treated as either traditional or Roth IRA contributions and would not be subject to standard plan rules.

### Increased Limits for Retirement Plans

Under the new law, the annual deferral limits for 401(k), 403(b) and section 457 plans are raised to $15,000 by the year 2006. After 2006, the limits will be adjusted for inflation in $500 increments. The following table shows the annual deferral limits for employee tax years beginning in 2002 through 2006.

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Deferral Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$11,000</td>
</tr>
<tr>
<td>2003</td>
<td>$12,000</td>
</tr>
<tr>
<td>2004</td>
<td>$13,000</td>
</tr>
<tr>
<td>2005</td>
<td>$14,000</td>
</tr>
<tr>
<td>2006</td>
<td>$15,000</td>
</tr>
</tbody>
</table>

The requirement to coordinate the section 457 deferral limit with elective deferral contributions made to other types of plans has been repealed by the new law effective in 2002.

In addition, employees who are age 50 or older may make "catch-up" contributions to 401(k), 403(b), and governmental section 457 plans. These would be additional deferral contributions in excess of the standard annual deferral limit. Catch-up contributions are limited to $1,000 in 2002, $2,000 in 2003, $3,000 in 2004, $4,000 in 2005, and $5,000 in 2006. This limit will be adjusted for inflation in $500 increments. Catch-up contributions are not subject to nondiscrimination testing provided that all employees age 50 and older are allowed to make catch-up contributions.

The elective deferral limit for SIMPLE IRAs and SIMPLE 401(k) plans has also been increased under the new law. The limit is $7,000 for 2002, $8,000 for 2003, $9,000 for 2004, and $10,000...
for 2005. The limit will be adjusted for inflation in $500 increments. Catch-up contributions to SIMPLE plans are also allowed. The catch-up contribution limit for SIMPLE plans is equal to 50% of the catch-up limit applicable to section 401(k), 403(b) and governmental section 457 plans.

EGTRRA also revises the annual contribution limitations applicable to defined contribution plans. Under current law, annual contributions to a defined contribution plan are limited to the lesser of: (i) $35,000, or (ii) 25% of a participant's compensation. The $35,000 limit is adjusted for inflation in $5,000 increments. Effective for limitation years beginning in 2002, the dollar limit is increased to $40,000 and will be adjusted for inflation in $1,000 increments. The 25% of compensation limitation is increased to 100% of compensation.

Likewise, the maximum exclusion allowance applicable to 403(b) plans is repealed and the 33-1/3% of compensation limit applicable to contributions under a section 457 plan is increased to 100% of compensation. These changes are also effective in 2002.

The maximum annual dollar limit applicable to defined benefit plans is also increased. Currently, the maximum annual benefit under a defined benefit plan is limited to the lesser of: (i) $140,000, or (ii) 100% of a participant's average compensation over his highest paid three years. Beginning in 2002, the $140,000 dollar limit is increased to $160,000 and will be adjusted for inflation in $5,000 increments. For purposes of applying this limit, the early retirement and normal retirement ages are reduced to 62 and 65, respectively. Under the new law, multiemployer plans are also exempt from the 100% of compensation limit; however, the dollar limitation still applies. Multiemployer plans cannot be combined with single employer plans for purposes of applying the 100% of compensation limit.

Finally, the annual compensation limit that is applied when determining contributions or benefits under a qualified plan is increased from $170,000 (adjusted for inflation in $10,000 increments) to $200,000 (adjusted for inflation in $5,000 increments) beginning in 2002. This increased limit also applies to compensation used in performing nondiscrimination tests and determining deductible employer contributions.

**Roth 401(k) and 403(b) Plans**

For employee tax years beginning after December 31, 2005, 401(k) and 403(b) plans may permit employees to elect to be taxed up-front on all or a portion of their elective deferral contributions. These contributions are referred to as "designated Roth contributions" and have benefits similar to Roth IRA contributions. Upon distribution, designated Roth contributions and earnings thereon are not subject to taxation. To receive this special tax treatment, a distribution must not occur until five years after the employee first makes a designated Roth contribution. In order for a plan to provide for designated Roth contributions, separate accounting and recordkeeping of these contributions are required. Rollovers of these contributions may only be made to a Roth IRA or another plan that provides for designated Roth contributions. Designated Roth contributions are counted towards the annual limits on elective deferral contributions and are included in the Actual Deferral Percentage (ADP) Test if they are made to a 401(k) plan.
Income Tax Credit for Lower Income Savers

Lower income savers are allowed a nonrefundable income tax credit for contributions to an IRA, 401(k), 403(b), governmental 457, SIMPLE or SEP retirement plan. The amount of the tax credit depends on the individual's adjusted gross income. The maximum tax credit is equal to $1,000. This provision is effective for tax years beginning after December 31, 2001, and expires in 2006.

Faster Vesting for Matching Contributions

Effective for plan years beginning in 2002, matching contributions must vest according to a maximum 3-year cliff vesting schedule or 6-year graded vesting schedule that provides for vesting in 20% increments beginning with the employee's second year of service. A special delayed effective date applies to collectively bargained plans. These plans will have until the date on which the last collective bargaining agreement terminates (if that date is after December 31, 2001), but in no event later than January 1, 2006, to comply with the new vesting requirements. These faster vesting requirements do not apply to matching contributions made to governmental plans or church plans that have not elected to be covered by ERISA.

Hardship Withdrawal Changes

The new law provides that all hardship withdrawals taken from qualified plans after December 31, 2001 are not eligible for rollover. Currently, only hardship withdrawals of 401(k) and 403(b) elective deferral contributions are ineligible for rollover.

Effective for plan years beginning in 2002, participants in a 401(k) plan subject to the "safe harbor" hardship withdrawal rules will be suspended from making elective deferral and employee post-tax contributions for only six months following a hardship withdrawal.

Expanding Pension Coverage to More Employees

EGTRRA is aimed at encouraging more employers to offer retirement plans to their employees. Expanding pension coverage to more employees will help provide retirement security for many Americans.

Employer Deduction Limit Changes

Effective for employer tax years beginning in 2002, the deduction limits for profit sharing and stock bonus plans are increased significantly. The annual limitation on deductible employer contributions to a profit sharing, stock bonus or money purchase pension plan under the new law is equal to 25% of total compensation paid to all eligible employees for the plan year. For these purposes, total compensation will now include elective deferral contributions. However, elective deferral contributions are no longer subject to the deduction limit.

Tax Credit for Small Employers

Effective for tax years beginning in 2002, employers with 100 or fewer employees will be allowed a maximum $500 nonrefundable income tax credit towards administrative costs associated with the start-up of a section 401(a) qualified plan, a 403(b) plan, a SEP or SIMPLE plan or for retirement
related education expenses for employees with respect to the plan. To be eligible for this credit, the plan must cover at least one non-highly compensated employee. This credit only applies for the first three years of a plan’s existence.

**Top-Heavy Rule Changes**

The top-heavy test determines if a qualified plan's assets are disproportionately comprised of the account balances or benefits of key employees. Effective for plan years beginning in 2002, the top-heavy rules are revised significantly.

The new law simplifies the "key employee" definition in many respects. The 5-year look back rule for determining key employees is repealed. In addition, the compensation limit that is applied when determining key employee status for officer employees is increased to $130,000. This limit will be adjusted in $5,000 increments for plan years beginning after December 31, 2002. The "top-ten" owner test is also removed from the key employee definition.

For purposes of satisfying the top-heavy minimum contribution requirement, matching contributions may now be taken into account. In addition, 401(k) plans that are exempt from ADP and Actual Contribution Percentage (ACP) testing because they meet the matching contribution safe harbor requirements are exempt from the top-heavy rules.

The new law also shortens the 5-year look back rule for distributions other than in-service distributions to one year. Finally, frozen defined benefit plans will not be required to provide top-heavy minimum accruals.

**Loans to Owner-Employees**

Effective for plan years beginning after December 31, 2001, the prohibited transaction exemption that applies to participant loans under qualified plans is expanded to cover "owner-employees." This will enable these participants to take plan loans. Owner-employees are generally owners of sole proprietorships, partnerships, or S corporations.

**Determination Letter Fee Eliminated for Small Employers**

Under current law, plan sponsors must pay a user fee to the Internal Revenue Service when requesting a determination letter as to the qualification status of a plan. Effective for requests made after December 31, 2001, this user fee is waived for new plans established by employers with 100 or fewer employees. For the waiver to apply, the determination letter must be requested by the end of the fifth plan year that the plan is in existence, or if later, by the end of any remedial amendment period beginning within the first five plan years of the plan's existence.

**Increasing the Portability of Pension Assets To Meet the Needs of a Mobile Workforce**

The new law contains many provisions designed to make it easier for employees who change jobs to consolidate their retirement savings. In addition, rules restricting distributions to participants in certain business transactions are eliminated.
New Rollover Provisions

The rollover changes noted below are effective for distributions made after December 31, 2001.

The new law allows rollovers to and from various types of retirement plans. Section 401(a) qualified plans, 403(b) plans, governmental section 457 plans, and IRAs may make and accept eligible rollover distributions to and from any of such plans or arrangements. Governmental section 457 plans will be required to separately account for funds rolled in from other types of plans. To the extent a distribution from a governmental 457 plan consists of 401(a) or 403(b) plan funds, those funds will be subject to the 10% tax on premature distributions. With respect to distributions from governmental section 457 plans, the new law applies the rollover notice and withholding rules currently applicable to qualified plans.

In addition, after-tax employee contributions under a qualified plan may be rolled into another qualified plan or to an IRA. If a qualified plan accepts rollovers of after-tax employee contributions, the plan must separately account for these contributions. However, after-tax employee contributions cannot be rolled from an IRA to a qualified plan.

Also, a surviving spouse who receives an eligible rollover distribution will be able to roll over that distribution into his or her own qualified retirement plan, 403(b) plan or governmental section 457 plan.

EGTRRA now gives the IRS authority to waive the 60-day time period in which rollovers must be made if the failure to comply with the 60-day time period was due to casualty, disaster, or other events beyond the reasonable control of the individual.

Default IRAs

Automatic rollovers to an IRA will be required for certain mandatory distributions in excess of $1,000 from a qualified plan if the participant does not affirmatively elect to receive the distribution directly or roll the distribution to another plan or IRA. This provision is not effective until the Department of Labor issues regulations providing safe harbors pertaining to the plan sponsor's selection of an IRA institution and the investment of funds in the default IRA.

Repeal of the Same Desk Rule

Generally, the "same desk rule" prohibits an employee who is terminated from employment on account of a business transaction (e.g., sale of the business to a new employer) from taking a distribution from his 401(k) plan, if he continues to perform substantially the same job functions for the new employer. The new law completely eliminates this burdensome rule by providing that distributions of elective deferrals may occur upon "severance from employment" rather than "separation from service." This provision applies to distributions made after December 31, 2001, regardless of when the severance from employment occurred.

Forms of Payment

In general, if a participant's benefit is transferred from one plan to another, the forms of payment that were available under the transferor plan must be available to the participant under the new
plan. In addition, plan sponsors are prohibited from eliminating a form of payment offered to participants for their account balance accrued to date. IRS final regulations which were effective September 6, 2000 provide exceptions to these anti-cutback rules. Now, effective for plan years beginning after December 31, 2001, the Internal Revenue Code provides similar exceptions to the anti-cutback rules.

An employee, if certain requirements are met, may now consent to a transfer of benefits from one defined contribution plan to another without having to preserve all forms of payment that were available under the transferor plan. In addition to these plan transfer rules, forms of payment under defined contribution plans may be eliminated if a single sum payment is available to participants.

The Secretary of the Treasury is also directed to issue regulations providing exceptions to the anti-cutback rules when a defined benefit plan eliminates or reduces early retirement benefits or subsidies or any optional forms of benefit. Such amendment must not adversely affect the rights of any participant in more than a de minimus way. These regulations will apply to plan years beginning after December 31, 2003, or such earlier date that is prescribed in the regulations.

Changes to Cash-Out Provision

Currently, when applying the $5,000 cash-out limit applicable to qualified plans, all amounts (including rollover contributions) are taken into account. Effective for distributions made after December 31, 2001, plans may disregard rollover contributions when determining whether the cash-out threshold is exceeded.

Strengthening Pension Security and Enforcement

EGTRRA also provides increased and improved disclosure to retirement plan participants. In addition, the funding limitations applicable to defined benefit plans are eliminated, thus increasing the security of retirement benefits for employees in the future.

Modifications to ERISA 204(h) Requirements

Under current law, ERISA section 204(h) requires a plan sponsor to notify participants of an amendment that significantly reduces the benefit accruals under a defined benefit plan or money purchase pension plan. This notice must be given to participants at least 15 days prior to the effective date of the amendment, but after the plan sponsor has adopted the amendment.

The new law allows the notice to be given to employees before the adoption of the amendment as long as no material modifications are made to the amendment before it is adopted by the employer. It also removes the 15-day rule. Notice must simply be provided within a "reasonable time" before the effective date of the plan amendment.

A $100 per day, per omitted individual penalty for failure of a plan sponsor to comply with the notice requirements is now provided. Certain exceptions to the penalty apply where the employer has exercised reasonable diligence to meet the notice requirements. These changes are effective for plan amendments made on or after June 7, 2001. Prior to the issuance of regulations, a plan will be treated as meeting these requirements if it makes a good faith effort to comply with the requirements.
**Defined Benefit Plan Funding Changes**

For plan years beginning after December 31, 2003, the current liability full funding limit is repealed. For 2002 and 2003, the applicable percentage associated with the current liability full funding limit is 165% and 170% respectively. In addition, all employers (regardless of size) are allowed to make fully deductible contributions up to the unfunded current liability; however an adjustment to this amount may apply to small employers (100 or fewer plan participants) who have recently implemented benefit improvements. For single employer plans that are subject to PBGC termination insurance, unfunded current liability may be replaced by unfunded termination liability if the plan terminates within the plan year.

The 10% excise tax on nondeductible contributions will not apply to defined benefit plan contributions up to the full funding limit. An employer may elect, when determining the amount of nondeductible contributions subject to the 10% excise tax for a tax year, to disregard defined benefit plan contributions up to the full funding limit.

**Prohibited Allocations of Stock in S Corporation ESOP**

The new law provides special rules for stock allocations under ESOPs of S corporations. Certain "disqualified persons" participating in an S corporation ESOP are prohibited from accruing or receiving allocations of employer stock under the plan.

**Reducing Regulatory Burdens for Plan Sponsors**

In many ways, EGTRRA makes it easier for plan sponsors to administer retirement plans. The complicated rules and regulations applicable to retirement plans have been simplified in various respects.

**Repeal of Multiple Use Test**

The complicated "multiple use test" that limits the total amount of elective deferral contributions, employee after-tax contributions and employer matching contributions that can be made to highly compensated employees is repealed for plan years beginning after December 31, 2001.

**Coverage Rule Change for Tax-Exempt Entities Offering 401(k) Plans**

The Secretary of the Treasury is directed to modify the minimum coverage rules to provide that tax-exempt entities offering 401(k) plans may exclude from minimum coverage testing employees who are eligible to make elective deferral contributions to a 403(b) plan.

**Investment of ESOP Dividends**

Currently, only ESOP dividends paid to participants in cash are tax deductible by the employer. Under the new law, an employer may also take a tax deduction for ESOP dividends that a participant elects to reinvest in employer securities under the plan. This change is effective for plan years beginning after December 31, 2001.
Timing Changes for Defined Benefit Plan Valuations

Generally, the valuation date for a defined benefit plan for a plan year must fall in the same plan year. However, the new law provides that a well-funded defined benefit plan may elect a valuation date that is up to one year prior to the beginning of the plan year. This option is effective for plan years beginning after December 31, 2001 and is not available to an under funded plan.

Miscellaneous Provisions

EGTRRA also contains a variety of miscellaneous provisions that clarify or simplify current pension law.

Minimum Required Distributions

The Secretary of the Treasury is directed to modify the life expectancy tables applicable to minimum required distributions to reflect current life expectancy.

Investment of Elective Deferrals in Employer Stock

The new law clarifies that the provision of the Taxpayer Relief Act of 1997, which limits the investment of elective deferral contributions in employer stock or real property to 10% is effective for elective deferrals made after December 31, 1998.

Employer-Provided Retirement Advice

The new law clarifies that the value of employer-provided retirement advice to an employee is excludable from the employee's income if the service is available to all employees in a nondiscriminatory manner.

Changes Affecting Section 457 Plans

Section 457 plans currently have special minimum distribution rules. For distributions made after December 31, 2001, the new law applies the minimum distribution requirements of Code section 401(a)(9) to section 457 plans. In addition, amounts deferred under a governmental section 457 plan will be included in income only when paid. Currently, amounts deferred under section 457 plans are included in income when paid or when they are otherwise made available to the participant or beneficiary.

Sample Participant Communication

We have created two sample participant communications, discussing the EGTRRA changes that apply specifically to plan participants. One communication discusses 401(k) plan changes, while the other discusses defined benefit plan changes. These sample communications can be used as a starting point for your communications to employees about the new law. If you sponsor both a defined benefit plan and a 401(k) plan, you may want to prepare a single communication, combining appropriate sections of the two communications.
Effective Date Summary of Pension Provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001*

Changes Effective upon Enactment
- Expanded ERISA 204(h) notice requirements

Changes Effective in 2002
- Increases in IRA contribution limits begin
- Increases in elective deferral limits for 401(k), 403(b) and 457 plans begin
- Increases in elective deferral limits for SIMPLE IRAs and SIMPLE 401(k) plans begin
- "Catch-up" contributions to IRAs, 401(k), 403(b), governmental 457 and SIMPLE plans allowed for individuals age 50 and older
- Repeal of coordination requirements between elective deferral contributions to section 457 plans and other types of plans
- Increased section 415 limits for defined contribution plans
- Elimination of maximum exclusion allowance applicable to 403(b) plans
- Repeal of 33-1/3% of compensation limit applicable to 457 plans
- Increased section 415 dollar limit for defined benefit plans; Early retirement age and normal retirement age reduced
- Increased section 401(a)(17) annual compensation limit
- Income tax credit for lower income savers (expires in 2006)
- Faster vesting requirements for employer matching contributions
- All hardship withdrawals are ineligible rollovers
- Reduction in suspension period for "safe harbor" hardship withdrawals
- Increased employer deduction limits for profit sharing and stock bonus plans
- Tax credit for certain small employers who establish new retirement plans
- Various changes to top heavy rules
- Plan loans to owner-employees allowed
- Determination letter fee for certain small employers waived
- Various changes to rollover rules
- Repeal of the "same desk" rule
- Relaxation of anti-cutback rules applicable to forms of payment
- Rollovers may be disregarded for purposes of $5,000 cash-out limit
- Increased full funding limit for defined benefit plans; eventually repealed by 2004
- Repeal of multiple use test
- Change to coverage rules for tax-exempt entities offering 401(k) plans
- Reinvestment of ESOP dividends in employer securities deductible by the employer
- Timing changes for defined benefit plan valuations
- Employer-provided retirement advice is nontaxable fringe benefit
- Miscellaneous changes to 457 plans

Changes Effective upon Issuance of Regulations
- Automatic rollovers to an IRA are required for certain mandatory distributions from qualified plans

Changes Effective in 2003 and Later
- IRA contributions to qualified plans, section 403(b) plans and governmental section 457 plans are allowed beginning in 2003
- Roth 401(k) and 403(b) plans will be permitted beginning in 2006

* All changes made by EGTRRA will expire after December 31, 2010, unless Congress takes steps to extend the provisions.
**Retirement Plan Alert**

**New Legislation Smiles Upon American Workers and Their Families**

Your Pension Plan (sometimes called a defined benefit plan) is an important benefit that should be used as a base from which to make other retirement savings decisions.

Congress passed new legislation and it gives a positive turn to the way your pension benefit is calculated. It’s called the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA) and President Bush signed it into law on June 7, 2001.

### In Plain English

Below we have tried to clarify the language in the law and to highlight the items that directly affect you. If you need further information, please contact your Plan Administrator. In general, the changes noted below are effective 2002.

**Pension Plan Benefits Increase**

Currently, the maximum annual benefit under a defined benefit plan, such as ours, is limited to the lesser of $140,000 or 100% of a participant’s average compensation over his or her highest paid three years. Beginning in 2002, the $140,000 dollar limit is increased to $160,000.

**Increase in the Compensation Limit**

A new compensation limit applies for determining the amount of contributions you can make to the plan or that we can make to the plan on your behalf. [Delete the reference to employee contributions in the previous sentence if the plan does not allow employee contributions.] The maximum compensation that can be considered for plan purposes has been increased from $170,000 to $200,000.

*Include the next section if your plan allows voluntary employee contributions.*

**A Tax Benefit Just For Saving**

Depending on your adjusted gross income (AGI), you may be eligible for an annual income tax credit for employee contributions you make to our plan. Joint filers with an AGI of $50,000 or less, heads of households with an AGI of $37,500 or less, and single taxpayers with an AGI of $25,000 or less are eligible for the credit. This credit will expire in 2006.

**Rollover Freedoms**

You will now have the ability to rollover funds from a qualified plan (such as this one) into other various types of retirement plans such as a 403(b) plan or governmental 457 plan, or vice versa. Overall, this means you have more options if you want to take your plan assets with you should you leave your job.

*Include the next section if your plan allows employee after-tax contributions.*

You may also roll over after-tax contributions you have contributed to our plan to another qualified plan (if that plan permits after-tax monies to come in) or to an IRA.

In addition, a surviving spouse who chooses to receive a rollover distribution from a retirement plan, such as ours, can now bring that money into his or her own retirement plan. Current law only allows this type of rollover into an IRA.

*Continued on Page 2-DB*
Changes to IRA Regulations
In addition to the limit increases under our qualified plan, the new law includes increased annual IRA contribution limits.

IRA investors who are age 50 and older may also make “catch-up contributions” to an IRA.

The following table outlines the new IRA contribution limits:

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Standard IRA Limit</th>
<th>Limit for Employees Age 50 and Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$3,000</td>
<td>$3,500</td>
</tr>
<tr>
<td>2003</td>
<td>$3,000</td>
<td>$3,500</td>
</tr>
<tr>
<td>2004</td>
<td>$3,000</td>
<td>$3,500</td>
</tr>
<tr>
<td>2005</td>
<td>$4,000</td>
<td>$4,500</td>
</tr>
<tr>
<td>2006</td>
<td>$4,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>2007</td>
<td>$4,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>2008</td>
<td>$5,000</td>
<td>$6,000</td>
</tr>
</tbody>
</table>

Include the next section if you plan to allow a “deemed IRA” as part of your benefit offering.

Finally, some employees subsidize their retirement savings by making voluntary contributions to an IRA. Beginning in 2003, these contributions can be invested in an account under a retirement plan that meets the IRA requirements. The contributions may be treated as either traditional or Roth IRA contributions and will not be subject to the plan rules. We plan to allow this new provision in order to give our employees greater savings convenience.
Retirement Plan Alert

New Legislation Smiles Upon American Workers and Their Families

“If you start out saving nothing... that’s probably what you’ll end up living on.”*

This phrase certainly rings true when it comes to preparing for 20, 30 or more years of retirement. Most of us know that if you don’t save for the future while you’re working, you may never stop working. Fortunately, many employees are taking full advantage of one of the smartest vehicles available for long-term saving, our company’s retirement plan – [the name of plan].

The Government Opens Their Eyes

With the uncertainty of Social Security and the increased financial needs of the retired American worker, Congress has pushed through a new law that will help you put more money aside to finance the life you want during retirement. It’s called the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and President Bush signed it into law on June 7, 2001. EGTRRA increases many of the limits surrounding the pre-tax amount you can contribute to our plan. And if you find that at age 50 you’re behind in putting aside the amount you’ll need to live on during retirement, you will have a special opportunity to make “catch-up contributions.” As a special incentive, EGTRRA offers lower income savers a tax credit just for contributing to their employer-sponsored retirement plan. In general, the changes noted below are effective in 2002.

In Plain English

Below we have tried to clarify the language in the law and highlight the items that directly affect you. If you need further information, please contact your Plan Administrator.

Increased Limits for Retirement Plans Like Ours

Under the new law, the annual pre-tax deferral limit will be raised significantly. By 2006 you will be able to set aside $15,000 in the plan – that’s $4,500 more that you can set aside now. The following table shows the annual deferral limits starting in 2002 through 2006.

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Deferral Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$11,000</td>
</tr>
<tr>
<td>2003</td>
<td>$12,000</td>
</tr>
<tr>
<td>2004</td>
<td>$13,000</td>
</tr>
<tr>
<td>2005</td>
<td>$14,000</td>
</tr>
<tr>
<td>2006</td>
<td>$15,000</td>
</tr>
</tbody>
</table>

*Continued on Page 2-401k*
Retirement Plan Alert Continued

Include the next section (including the chart), only if you plan to allow catch-up deferrals under your plan.

Catch-up Contributions

Employees who are age 50 or older may make “catch-up contributions” to our plan. These are additional pre-tax deferral contributions in excess of the deferral amounts noted above. The chart below outlines the limits on "catch-up contributions" over the next five years:

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Additional Catch-up Contribution for Participants Age 50 and Older</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$ 1,000</td>
</tr>
<tr>
<td>2003</td>
<td>$ 2,000</td>
</tr>
<tr>
<td>2004</td>
<td>$ 3,000</td>
</tr>
<tr>
<td>2005</td>
<td>$ 4,000</td>
</tr>
<tr>
<td>2006</td>
<td>$ 5,000</td>
</tr>
</tbody>
</table>

Overall Annual Contribution Limits Are Increased

Under the current law, total annual plan contributions (pre-tax and post-tax as well as company contributions) are limited to the lesser of $35,000 or 25% of a participant’s compensation. The new law has lightened this restriction. Now, total annual plan contributions made to your account may not exceed the lesser of $40,000 or 100% of your compensation.

Increase in the Compensation Limit

A new compensation limit applies for determining the amount of contributions you can make to the plan or that we can make to the plan on your behalf. [Delete the reference to company contributions in the previous sentence if the plan is an employee pay-all plan.] The maximum compensation that can be considered for plan purposes has been increased from $170,000 to $200,000.

A Tax Benefit Just For Saving

Depending on your adjusted gross income (AGI), you may be eligible for an annual income tax credit for contributions you make to our plan (this includes an IRA, a 401(k) and other types of retirement plans). Joint filers with an AGI of $50,000 or less, heads of households with an AGI of $37,500 or less, and single taxpayers with an AGI of $25,000 or less are eligible for the credit. This credit is in addition to any favorable tax treatment that may apply to your plan contributions. This credit will expire, however, in 2006.

Include either (1) or (2) in the next section if there is a company match and if the plan’s vesting schedule is not as lenient as a 3-year cliff or a 6-year graded – employer must change to a faster vesting schedule.

Faster Vesting For Your Company Matching Contributions

According to the new law, we are required to provide you faster vesting in your company matching contributions.

(1. Three-year cliff)
You will be zero percent vested in your company matching contributions until you complete at least three years of vesting service. After you complete three years of vesting service, you will be 100% vested in company matching contributions made on your behalf.

(2. 6-year graded)
The schedule below shows you exactly how long it will take you to become 100% vested in your company matching contributions.
## Retirement Plan Alert Continued

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Vesting Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 Years</td>
<td>0%</td>
</tr>
<tr>
<td>2 Years</td>
<td>20%</td>
</tr>
<tr>
<td>3 Years</td>
<td>40%</td>
</tr>
<tr>
<td>4 Years</td>
<td>60%</td>
</tr>
<tr>
<td>5 Years</td>
<td>80%</td>
</tr>
<tr>
<td>6 Years</td>
<td>100%</td>
</tr>
</tbody>
</table>

Remember, you are always 100% vested in your own plan contributions.

*Include the next section if your plan offers Hardship Withdrawals of pre-tax contributions and uses the Safe Harbor Rule.*

### Hardship Withdrawal Suspension Period is Reduced
Under the new law, you will have the ability to resume making contributions to the plan six months after you request a hardship withdrawal of your pre-tax contributions. Current law requires you to wait at least 12 months.

*Include the next section if your plan offers any type of Hardship Withdrawals.*

### Rolling Over Hardship Withdrawals – No More
You will not be able to roll over any hardship withdrawal into another retirement plan or IRA. Currently, only hardship withdrawals of pre-tax contributions are not eligible for rollover.

### Rollover Freedoms
You will now have the ability to roll over funds from a qualified plan (such as a 401(k) plan) into other various types of retirement plans such as a 403(b) plan or a governmental 457 plan, or vice versa. Overall, this means you have more options if you want to take your plan assets with you should you leave your job.

*Include the next section if your plan allows after-tax contributions.*

You may also roll over after-tax contributions you have contributed to our plan to another qualified plan (if that plan permits after-tax monies to come in) or to an IRA.

In addition, a surviving spouse who chooses to receive a rollover distribution from a retirement plan, such as ours, can now roll that money over into his or her own retirement plan. Current law only allows this type of rollover into an IRA.

*Include the next section if your plan covers Owner-Employees.*

### New Loan Ability for Owner-Employees
Employees who are considered owner-employees of a company have not had the ability to take a loan against their plan assets – now they can.

Continued on Page 4-401k
Retirement Plan Alert Continued

Changes to IRA Regulations
In addition to the limit increases under our qualified plan, the new law includes increased annual IRA contribution limits.

IRA investors who are age 50 and older may also make “catch-up contributions” to an IRA.

The following table outlines the new IRA contribution limits:

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Standard IRA Limit</th>
<th>Limit for Employees Age 50 and Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$ 3,000</td>
<td>$ 3,500</td>
</tr>
<tr>
<td>2003</td>
<td>$ 3,000</td>
<td>$ 3,500</td>
</tr>
<tr>
<td>2004</td>
<td>$ 3,000</td>
<td>$ 3,500</td>
</tr>
<tr>
<td>2005</td>
<td>$ 4,000</td>
<td>$ 4,500</td>
</tr>
<tr>
<td>2006</td>
<td>$ 4,000</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>2007</td>
<td>$ 4,000</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>2008</td>
<td>$ 5,000</td>
<td>$ 6,000</td>
</tr>
</tbody>
</table>

Include the next section if you plan to allow a “deemed IRA” as part of your benefit offering.

Finally, some employees subsidize their retirement savings by making voluntary contributions to an IRA. Beginning in 2003, these contributions can be invested in an account under a retirement plan that meets the IRA requirements. The contributions may be treated as either traditional or Roth IRA contributions and will not be subject to the plan rules. We plan to allow this new provision in order to give our employees greater savings convenience.

* Poor Richard’s Almanac

Pension Analyst by Prudential Retirement
The Pension Analyst is published by Prudential Retirement, a Prudential Financial business, to provide clients with up-to-date information on current legislation and regulatory developments affecting qualified retirement plans. This publication is distributed with the understanding that Prudential Retirement is not rendering legal advice. Plan sponsors should consult their attorneys about the application of any law to their retirement plans. Prudential Financial is a service mark of The Prudential Insurance Company of America, Newark, NJ and its affiliates.

Editor: Mitzi Romano (860) 534-2768

©2004, The Prudential Insurance Company of America, all rights reserved.