

“Special Bulletin”

A publication of The Pension Specialists, Ltd.

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Congress gives Retirement Plan Sponsors a Big Break with Maximum Five-Year Plan Document Restatement Rule!

The U.S. Congress has relieved the burden of document restatements for employers sponsoring qualified retirement plans. Prior to 1986 the IRS had frequently required document restatements due to changes in income tax law. The law required retirement plan document restatements each time the tax law changed. Employers were required to restate their documents in 1975, 1979, 1982, 1983 and 1986. The Tax Reform Act of 1986 changed the law limiting document restatements to a maximum of once in five years beginning after 1986.

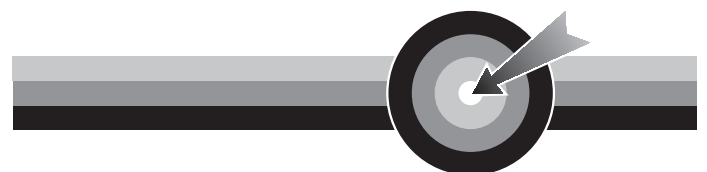
The 1986 tax law required plan documents to be restated by the end of 1989 to reflect the 1986 changes. The IRS delayed the 1989 document restatements by five years to 1994 because the Department of the Treasury failed to issue the regulations needed to interpret the operation of the new laws. 1994 is the last year plan document restatements were required. Employers have been required to administratively apply tax laws passed since 1994 but plan documents have not needed to be restated.

Standardization and Technology when combined with extension of the five-year rule have drastically reduced the annual cost of maintaining retirement plan documents!

Retirement plan standardization and desktop computers have combined with extension of the five-year restatement rule to drastically reduce the average annual cost of maintaining a retirement plan document. In the years covering 1975 to 1986, five document restatements cost employers \$2,000 each. This total of \$10,000 cost employers an average \$830 per year for plan documents. The fees for 1994 restatements were dropped to \$1,500. These plans were used for eight years resulting in an average annual plan document cost of \$188. The cost of 2001 restatements will be about \$1250. These plans should be good for eight years, yielding an average annual cost of \$156.25. Adjusted at a 4.45% inflation rate, the annual cost of 2001-2002 plan document maintenance will be about 4% of the cost incurred between 1975 and 1986. (This dramatic reduction in cost due to increased efficiency is an example of the productivity gains that caused the dramatic rise in the stock markets over the same period.)

Document restatements are required in 2001!

Another round of Document restatements originally scheduled for 1999 has been moved to 2001 by the IRS. Year 2001 restatements will contain tax law changes enacted from 1994 through 2000. The deadline for these restatements fall between June 30 and November 30, 2002.



See reverse side for required provisions ■ ■ ■

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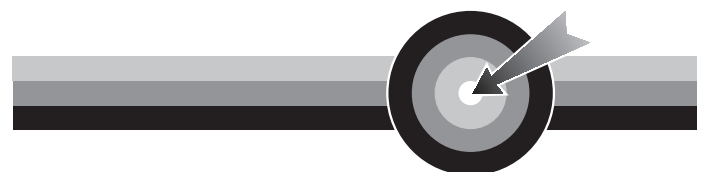
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GUST Restatements – what provisions are required to be incorporated into your retirement plan by the IRS changes?*

New or Amended Provision	Effective Date
Law: GATT (General Agreement on Tariffs and Trades – Uruguay Round Agreements Act of 1994)	
Amends IRC 415 requirements regarding the assumptions used in the actuarial adjustments of IRC 415(b)(2)(B), (C) and (D)	Post 1994 limitation years
Compensation definition: (a) Code § 415 definition of compensation includes deferrals and cafeteria plan reductions, (b) plan may elect not to include deferrals and cafeteria plan reductions for purposes of Code § 414(s), (c) family aggregation is eliminated, (d) compensation limit is \$160,000 for 1997 and 1998, and indexed thereafter, (e) eliminated reference to defined benefit limitation for purposes of the defined contribution dollar limitation, and (f) contributions are allowed for disabled employees (including HCEs) without first making an election (some of these changes added by SBJPA)	Post-1997 plan years Post-1996 limitation years (disability change) Post-1994 limitation years (defined benefit limitation)
Changes the prescribed actuarial assumptions used in computing the minimum value placed on certain distributions from defined benefit plans	Distributions with an annuity starting date in post 1994 plan years
Law: USERRA (Uniformed Services Employment and Re-Employment Rights Act of 1994)	
New coverage, vesting credit, and benefit accrual requirements for certain reemployed veterans	December 12, 1994
Law: SBJPA (Small Business Job Protection Act of 1996)	
Defined contribution/defined benefit fraction under Code § 415(e) repealed	Post-1999 limitation years
Special aggregation rules that applied to owner-employees are repealed	Post-1996 plan years
Notice of Qualified Joint and Survivor Annuity may be provided after annuity starting date; waiver of minimum 30-day notice period	Post-1996 plan years
Change in required beginning date and timing of distribution election for non-5% owners to April 1 following the later of (a) the year in which the employee attains age 70½ and (b) the year in which the employee retires	Post-1996 plan years
15% excess distribution/accumulation taxes repealed (also amended by TRA '97)	Distributions received or deaths after December 31, 1996
Change in the definition of "highly compensated employee" (including elimination of calendar year election, addition of calendar year data election and repeal of family aggregation)	Post-1996 plan years
ADP and ACP of nonhighly compensated is based on preceding plan year, unless the employer elects to use the current plan year	Post-1996 plan years
Safe harbor ADP and ACP for nonhighly compensated employees for plan's first plan year is 3% or current year's ADP/ACP, if elected by the employer	Post-1996 plan years
"Leased Employee" definition changed to "under primary direction or control by the recipient"	Post-1996 plan years
Minimum coverage test (that a plan cover the lesser of 40% of the employees and 50 employees) does not apply to defined contribution plans	Post-1996 plan years
Distribution of excess contributions and excess aggregate contributions is based on deferral or matching dollar amount, not percentages	Post-1996 plan years
Safe harbor method of meeting ADP and/or ACP nondiscrimination requirements	Post-1998 plan years
Social Security retirement age may be treated as a uniform retirement age for purposes of the nondiscrimination rules	Post-1996 plan years
Law: Taxpayer Relief Act of 1997	
Matching contributions for self-employed persons are not treated as elective deferrals	Post-1997 plan years
Increase in involuntary cash-out from \$3,500 to \$5,000; elimination of "look back rule" for determining \$5,000 cash-out	Plan years beginning after August 5, 1997; look back rule eliminated March 22, 1999
Elective contributions that are required to be invested in employer stock in a non-ESOP 401(k) plan are generally limited to 10% of plan assets	Post-1998 plan years
Offset of participant's benefit for criminal conviction relating to the plan or for a civil judgment for breach of fiduciary duty with respect to the plan	Judgments, orders, decrees, and settlement agreements occurring after August 4, 1997
Law: Restructuring and Reform Act of 1998	
401(k) hardship distributions are not "eligible rollover distributions," and therefore are not eligible for rollover treatment. These distributions are also not subject to 20% withholding requirement.	Post-1998 or Post-1999 plan years, at employer's election

***The Pension Specialists, Ltd. has been administering plans according to these changes. Now the Plan Document must be amended to include all of these changes.**