



401(k) News Flash

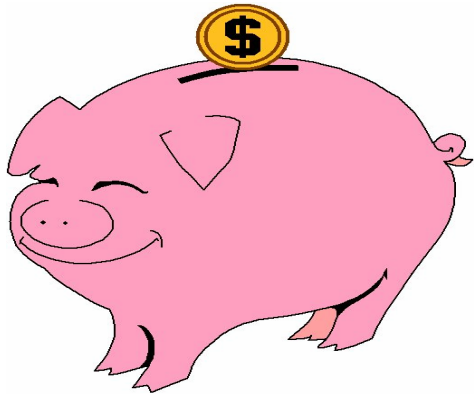
American Pensions, Inc.

September 30, 2005

This 401(k) News Flash describes features that are or will be available to retirement plans. Contact our office today to receive additional information or to determine if these features may benefit your plan.

Increase Plan Participation with Automatic Enrollment

One of the latest tools to help improve your employees' participation in your 401(k) retirement plan is automatic enrollment.



Employees also said they would be more likely to participate if the plan included investments that automatically became more conservative as their retirement date approached, such as the life cycle funds described on page two.

The automatic enrollment feature is not limited to newly eligible employees. It can also be applied to employees who are eligible but not participating or are participating at a rate less than the default rate.

Using this feature, an employee is automatically enrolled in a 401(k) plan at a default salary deferral rate as of the plan entry date when he or she is first eligible to participate. The employee may elect a different deferral rate or decline to participate in the plan by completing a standard enrollment form.

Each eligible employee must receive notice of the right to make a different election, including an election not to defer, and must have a reasonable period of time to make such an election.

Statistics show that 66% of employees said they were more likely to participate in a plan if they were automatically enrolled.

Let's look at the basic requirements for automatic enrollment.

- A plan amendment is required to implement automatic enrollment.
- Employees must receive reasonable advance notice prior to implementation.
- Annual notice of the automatic enrollment feature along with the default deferral rate and the default investment is advisable.
- The plan sponsor has a fiduciary responsibility to choose default investment options that will generate appropriate returns for participants. Some sponsors use conservative investments, such as money market or stable value funds,

while others use balanced or lifestyle funds as the default.

- Proper communication with your payroll provider is essential to ensure the accurate implementation of this feature.

Automatic enrollment can increase participation rates in your plan, especially among the lower-income workers that are the least likely to participate. Generally the default deferral rate is no less than 3% and no more than 6% (depending on the income level of the work force). The default rate could be increased annually with proper notification of the employees.

While automatic enrollment may increase participation and in turn improve nondiscrimination test results, the key to keeping employees pleased with any changes to their retirement plan is proper communication of the benefits they are receiving from the employer.

Inside this Issue:

- **Increase Plan Participation with Automatic Enrollment**
- **Help Employees Diversify with Life Cycle Funds**
- **Investing in Exchange Traded Funds**
- **What You Should Know About the Roth 401(k) Plan**

Help Employees Diversify with Life Cycle Funds

This 401(k) News Flash is provided as a service to clients of American Pensions, Inc. to keep you abreast of new developments in qualified retirement plans. If you would like additional information about any of the items discussed in this newsletter, please call our office.

American Pensions, Inc., founded in 1989, is one of the largest full service, third party retirement plan recordkeeping and administration firms in South Carolina. As a "revenue neutral" registered investment advisor, API acts as a co-fiduciary with respect to our investment recommendations and advice.

With Life Cycle Funds, investors can shift fund allocation responsibilities to the fund company managers. There are two types of Life Cycle Funds: Lifestyle Funds and Target Retirement Funds.

A Lifestyle fund maintains an allocation of mutual funds based on its objective of aggressive, moderate, or conservative risk. A Target Retirement fund is de-

signed for investors who plan to retire in or close to a target year. The fund's allocation becomes increasingly more conservative as it gets closer to the target retirement date.

Life Cycle Funds are becoming increasingly popular offerings in retirement plans, particularly as more plans move toward automatic enrollment.

What you should know about the Roth 401(k) Plan

Roth contributions, a popular Individual Retirement Account (IRA) feature, will soon be available as an option to qualified retirement plans. Beginning in 2006, employers can amend their current 401(k) or other qualified plan to offer a Roth 401(k) option.

Roth 401(k) deferrals are after-tax employee contributions that allow for tax-free earnings and tax-free withdrawals as long as the participant has reached age 59½ and at least five years have elapsed from the date of the participant's first Roth 401(k) contributions to the plan. The tax-free earnings of Roth 401(k) deferrals appeal to a broad range of employees and it is therefore expected to be a popular option for retirement.

In addition, Roth 401(k) deferrals are available to both low and high-income employees, unlike Roth IRA contributions

which are reduced, and eventually eliminated, for taxpayers with adjusted gross incomes in excess of certain levels.

A plan may offer Roth 401(k) deferrals in addition to or instead of traditional pretax deferrals. However, all deferrals must be combined for the annual 402(g) dollar limit, which will be \$15,000 in 2006, plus an additional \$5,000 catch-up contribution for employees age 50 and older. Participants may elect to make any combination of traditional pretax and Roth 401(k) deferrals, but the combined dollar amount deferred cannot exceed this \$15,000 limit. It is also important to note that the decision to characterize a portion of deferrals as a Roth contribution is irrevocable.

Matching contributions may be made on Roth 401(k) deferrals if the plan document provides, but

the match will be subject to taxation when distributed.

Roth 401(k) plans can be implemented as early as January 1, 2006. Additional IRS guidance is still needed on items such as payroll procedures,



rollovers, and tracking the five year period for tax-free distributions, but these items should be resolved before the end of the year. In addition, Congress is expected to address a sunset provision that would eliminate the Roth 401(k) after December 31, 2010.

Please contact our office for more information on Roth 401(k) plans or to add this option to your retirement plan.

American Pensions, Inc.

Retirement Plan Administration and Consulting

735 Johnnie Dodds Blvd., Ste 200, P.O. Box 98
Mount Pleasant, SC 29465-0098

Phone: (843) 884-3912, Fax: (843) 881-4051
www.401kfocus.com, email: info@ampen.com