



Highlights of the Pension Protection Act of 2006

Please note that this document provides just an initial summary of the Pension Protection Act of 2006 (the "Act") which, as of the date this document was prepared, had not yet been signed into law by the President. This document is not intended to be a complete summary of the Act and should not be relied on as many of the Act's provisions are subject to further regulatory guidance and interpretation.

I. Permanence of IRA and Defined Contribution Limits

- IRA and retirement savings contribution limits - Makes permanent the IRA and pension provisions enacted in the 2001 tax cut legislation. The 2001 law increased annual contribution limits for IRAs and workplace plans; created additional catch-up contributions for individuals age 50 and older; and created incentives for small employers to offer workers retirement savings options.
- Split Tax Refunds – Gives taxpayers the option of depositing a portion of their federal tax refund directly into an IRA and other accounts.
- Military early withdrawal penalties – Waives the 10% early IRA distribution penalty for military reservists and national guardsmen who are called to active duty for at least 180 days. Withdrawals must be repaid to the IRA or pension plan within two years of the distribution, without regard to annual contribution limits.
- IRAs for the Disabled – Permits disabled individuals to contribute to an IRA even if they have no earned income.
- IRA rollovers – Permits tax-free IRA rollovers of distributions for non-spouse beneficiaries

II. Defined Contribution / IRA Reforms

- Automatic enrollment and investment features – Encourages employers to automatically enroll workers in defined contribution pension plans. Provides a safe harbor for automatic enrollment, and automatic escalation of contributions. The U.S. Department of Labor is directed to provide guidance on fiduciary relief for default investments within 6 months; the legislation effective date is 1/1/2008.
- Diversification – Gives workers the right to sell publicly-traded company stock in their retirement plan account after 3 years of service for matching contributions, and immediately for employee contributions. Also prohibits companies from forcing employees to invest any of their own retirement savings contributions in company stock.
- Mapping – Provides fiduciary protections during a blackout period for "mapping" investments to new plan providers, with appropriate notice.
- Disclosure – Requires companies to provide quarterly benefit statements including the value of assets, diversification rights, and the importance of maintaining a diversified portfolio.
- Saver's Credit – Permanently extends "Saver's Credit," set to expire 12/31/06, and indexes the credit to inflation.

III. Defined Benefit Plan Reforms

- Modified yield curve – Provides a permanent interest rate based on a modified "yield curve" for employers, in order to more accurately measure pension liabilities.
- Increased funding requirements – Requires employers to make contributions sufficient to meet a 100% funding target in 3 years, and erase funding shortfalls over seven years.
- Credit balances – Limits use of credit balances if plans are funded at less than 80%
- At-risk plans – Triggers accelerated contributions and benefit restrictions for under-funded DB plans with less than 70% funding (using worst-case benefit assumptions) and less than 80% funding (using standard assumptions). (Provides exceptions for autos and airlines).

- Increased contributions – Expands DB plan contribution deductibility to 150% of current liability.
- Limitations on increased benefit – Prohibits plans from increasing benefits if the plan is less than 80% funded, unless the benefits are paid for immediately.
- Deferred compensation – Restricts the use of deferred executive compensation for senior executives for employers with severely underfunded plans.
- Airline plans – Generally, provides 10 years to meet funding shortfalls. Airlines that freeze benefits are granted 17 years to fund their plans using strict liability measures.
- Cash-balance plans – Provides greater certainty on prospective cash-balance conversions to ensure they are a viable retirement security option.
- Age discrimination - Prospectively establishes an age discrimination standard for all DB plans, clarifying current ERISA law.
- Multi-employer plans – Sets quantifiable benchmarks to identify and notify participants of funding status, and measure future plan funding. Imposes new amortization schedules, maximum deductible limits, and tests of plan health to ensure stronger funding.
- Termination premium – Permanently establishes an employer-paid termination premium of \$1,250 per participant if a plan sponsor terminates its pension upon entering bankruptcy.
- Retiree health benefits – Creates new retiree health funding options from well funded defined benefit plans.

IV. Investment Advice

- Personalized investment advice – Permits qualified fiduciary advisers to deliver personally-tailored investment advice face-to-face, by phone, or electronically for 401(k)s and IRAs, including HSAs, Archer MSAs, and Coverdell education savings accounts.
- 401(k) plan and IRA requirements – Requires fiduciary advisers for employer-sponsored plans to base their recommendations on a computer model certified and audited by an independent third party. Alternatively requires that investment adviser's fees not vary based on the investments selected. In addition, imposes fiduciary protections and disclosure requirement.
- DoL Review of New Code Exemption for IRAs – The U.S. Department of Labor, in consultation with the U.S. Department of the Treasury, will study whether an effective computer model can exist that takes into account the full range of applicable investment options available to IRAs, including equities and bonds. If DoL cannot certify that an appropriate model exists, then it would be required to provide a class-exemption from ERISA prohibited transaction rules to give IRA advisers greater autonomy to offer one-on-one advice. Advisers would be required to certify in writing that the company has adopted written policies and procedures to ensure advice is provided in the participant's best interest.

V. Insurance and Other Provisions

- Long-term care insurance – Permits adding long-term care riders to annuity contracts. Encourages development of combination products that consolidates various insurance protections into a single product while providing a savings feature.
- Charitable reforms. Provides a statutory construct for the operation of donor advised funds, and tightens the rules in areas where Congress perceived were abuses in charitable giving. Legislation permits tax-free IRA rollovers directly to charitable organizations, but excludes DAFs, supporting organizations, and private foundations. This provision sunsets after 2 years; Fidelity will work toward providing future eligibility for rollovers to DAFs and other charitable organizations.
- College Savings permanence - Permanently extends authorization for the tax-advantaged savings benefits of 529 College Savings plans, which were set to expire in 2010.
- Government Plans – Promotes the purchase of additional pension benefits in state and local government plans.

- COLI –Imposes additional limitations on life insurance on former employees.

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