



FBA NEWS NOTES

Winter 2006

NEWS AND INFORMATION ON EMPLOYEE BENEFIT PLANS

IRS ISSUES 2007 RETIREMENT PLAN LIMITS on BENEFITS & CONTRIBUTIONS.

The IRS has announced the 2007 cost-of-living adjustments (COLAs) to dollar limitations on benefits and contributions, annual compensation limits, and other dollar limitations applicable to retirement plans.

Please contact your Fringe Benefit Administrators, Ltd. Administrator if you have any questions regarding these changes.

Limitation Type	IRC Section	2007	2006	2005
Defined Benefit Plan <i>Maximum Benefit Limit</i>	415(b)(1)(A)	\$180,000	\$175,000	\$170,000
Defined Contribution Plan <i>Maximum Contribution Limit</i>	415(c)(1)(A)	\$45,000	\$44,000	\$42,000
Annual Compensation Limit <i>All Plans</i>	401(a)(17), 404(1), 408(k)(3)(C) and 408(k)(6) (D)(iii)	\$225,000	\$220,000	\$210,000
Elective Deferrals Limit <i>401(k) and 403(B) Plans</i>	402(g)(1)	\$15,500	\$15,000	\$14,000
Elective Deferrals Limit <i>457(B) and 457(C) Plans</i>	457(b)(2) and 457(c)(1)	\$15,500	\$15,000	\$14,000
Catch-Up Contribution Limit <i>401(k), 403(B) and 457 Plans</i>	414(v)(2)(B)(i)	\$5,000	\$5,000	\$4,000
Highly Compensated Employee <i>Compensation Breakpoint</i>	414(q)(1)(B)	\$100,000	\$100,000	\$95,000
Key Employees <i>Officer Compensation Breakpoint</i>	416(i)(1)(A)(i)	\$145,000	\$140,000	\$135,000
Key Employee <i>1% Owner Compensation Breakpoint</i>	416(i)(1)(A)(i)	\$150,000	\$150,000	\$150,000
SIMPLE Retirement Accounts <i>Deferral Limit</i>	408(p)(2)(B) and 401(k)(11)(B)	\$10,500	\$10,000	\$10,000
SIMPLE Catch-Up Contribution Limit	414(v)(2)(B)(ii)	\$2,500	\$2,500	\$2,000
SEP <i>Employee Covered Compensation</i>	408(k)(2)(C)	\$500	\$450	\$450
Social Security Wage Base <i>(No limit for Medicare tax)</i>	N/A	\$97,500	\$94,200	\$90,000
Social Security Benefit COLA <i>Cost-of-Living Adjustments</i>	N/A	4.1%	4.1%	2.70%
FICA Tax <i>Employer and Employees</i>	N/A	7.65%	7.65%	7.65%
Social Security/Medicare Tax <i>Employer and Employees</i>	N/A	6.2%/1.45%	6.2%/1.45%	6.2%/1.45%
FICA Tax <i>Self Employed Workers</i>	N/A	15.30%	15.30%	15.30%
Social Security/Medicare Tax <i>Self Employed Workers</i>	N/A	12.4%/2.90%	12.4%/2.90%	12.4%/2.90%

Qualified Plans' Maximum Compensation Limit. The maximum compensation used to calculate benefits under qualified retirement plans increases to \$225,000 this year. Dividing the maximum deferral by the maximum salary yields a deferral percentage of 6.9% (\$15,500 / \$225,000).

Pension Plans. The maximum annual pension payable as a life annuity under a defined benefit pension plan (at age 65), moves up to \$180,000.

401(k) / 403(b) Plans. The maximum annual elective salary deferral under a 401(k), 403(b) or 457 plan in a calendar year grows to \$15,500. **The limit will increase with inflation in \$500 increments.** It is no longer necessary to have a restrictive percentage limit on deferrals, in most cases a 95% limit should suffice.

Highly Compensated Employees. Unchanged from 2006, a participant is considered "highly compensated" if their compensation is \$100,000 or above in the prior year. This group can be further limited to the top 20% of all eligible employees, ranked by compensation. These thresholds are used in virtually all discrimination testing of qualified employee benefit plans. The bar for **Key Employees** raises from \$140,000 for 2006 to \$145,000 for 2007.

Defined Contribution Plans. The limit on annual additions under section 415(c)(1)(A), (i.e., all contributions and forfeitures), for a participant to a defined contribution plan moves up to \$45,000. Remember that effective January 1, 2002, the 25% of pay limit was eliminated.

The Social Security Wage Base. The wage base increases to \$97,500 up from \$94,200. The Social Security tax rate on these wages remains at **6.2%**. OBRA '93 removed the FICA Medicare tax wage limit, so all wages are subject to the 1.45% tax. The combined tax rate remains **7.65%**.

Other Types of Plans. For 2007, the minimum threshold for employees to be included in a SEP plan increases from \$450 to \$500. Simple IRA and Simple 401(k) **maximum deferrals** increase to \$10,500 and **will increase by inflation next year.** The catch-up on a SIMPLE plan remains at \$2,500. **The limits will be increased thereafter for inflation in \$500 increments.**

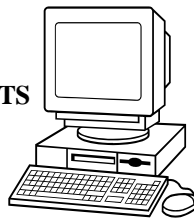
ANNOUNCEMENTS about FRINGE BENEFIT ADMINISTRATORS, LTD.

#1 – November 2006 - FBA's NEW Website

The NEW & IMPROVED FBA, Ltd. Website was recently launched during the month of November. The site has a fresher look and promises to be a user friendly version.

Some of the new features on the site:

- EDUCATIONAL MATERIAL
- ANNUAL PLAN CONTRIBUTION & BENEFIT LIMITS
- FREQUENTLY ASKED QUESTIONS (FAQs)
- ON-LINE FORMS



- FBA NEWSLETTERS
- POPULAR LINKS
- TEN PLANNING CALCULATORS

FBA, Ltd. Note

* We would welcome your comments and feedback regarding the new website.

2 – 01/01/2007 – NEW FBA Services – Guidance & Advice Services on the Participant Website

Guidance. Investment Advice. Education. Fiduciary Responsibility. Diversification. Asset Allocation. Today, more than ever, these topics demand the attention of plan providers, employers, and participants alike. The subjects can be difficult, the unknowns, many. Despite the uncertainties, however, there is a constant; in today's volatile financial markets, plan participants need tools to help them navigate through the difficult savings and investment decisions required for their qualified plans.

WGiven these factors, FBA, LTD. is pleased to announce that starting January, 2007, plan sponsors will be able to add Newkirk's MasteryPoint Guidance Plus Service and MasteryPoint Advice Plus Service to their plans. The services will be available for participants when they login to their account through the FBA website's Participant Log-On Screen.

- **The MasteryPOINT Participant Guidance Service** takes participants to a new level of understanding and knowledge. The Participant Guidance Service provides several valuable features:
 - To come as close as possible to providing investment advice to participants without crossing the fiduciary boundary. In other words, to provide guided near advice.
 - To make education simple and enjoyable for plan participants.
 - To simplify the deployment process for Plan Providers.
 - To provide sophisticated analysis of plan and non-plan assets.
 - To provide optimized portfolios which create the highest returning investment mix at a given risk level.
 - To provide Monte Carlo simulation to generate a probability of each participant reaching his or her goals.

- **The MasteryPOINT Advisor**, in addition to the features in the guidance service, offers full investment advice to plan participants, including fund specific plan recommendations for each participant.

FBA, Ltd. Note
 * Please contact Dick Watson for more information on the cost of these services.

3 – 01/01/2007 (FBA will provide Administration Services for the ROTH 401(k) Option)

For companies considering incorporating Roth 401(k) contributions as part of its 401(k) plan, now is the time to contact your FBA administrator to determine the feasibility of adding provisions for Roth 401(k) contributions. A company should allow sufficient time for participant education and elections, since the choice between before-tax and after-tax contributions may not be a simple one. Remember, a plan must be amended to permit Roth 401(k) contributions.

Roth 401(k) Overview

A Roth 401(k) contribution is an after-tax elective contribution made by a participant to a 401(k) plan. The participant may irrevocably designate part or all of such 401(k) elective contribution as a taxable Roth 401(k) contribution. The employee will be taxed on the Roth 401(k) contribution in the year the elective deferral is made. The Roth 401(k) contribution grows tax-free in the plan and, together with earnings, will be tax-free when distributed to the participant as a qualified distribution. Unlike Roth IRAs, there is no maximum income limit with respect to the persons eligible to make Roth 401(k) contributions.

Except for the tax treatment for the individual contributor, Roth 401(k) contributions generally are treated in the same manner as traditional 401(k) elective contributions. These contributions are fully vested and are counted toward the annual limit on elective deferrals (\$15,500 in 2007). They may be matched by the employer in the same manner as traditional 401(k) contributions and are subject to the ADP test that is used to test traditional 401(k) contributions for discrimination. Roth 401(k) contributions are subject to the same distribution events as 401(k) contributions (termination of employment, death, disability, age 59½, hardship) and are subject to the age 70½ minimum required distribution rules.

However, additional distribution restrictions are required to qualify Roth 401(k) contributions and earnings as tax-free. Accumulated Roth 401(k) contributions must be paid after age 59½ or upon death or disability and may not be paid during the five years following the first Roth 401(k) contribution to the plan or to a predecessor Roth 401(k) plan (for rolled over Roth amounts). Furthermore, unlike a Roth IRA, distributions of Roth 401(k) contributions for a first time home purchase will not be a considered a qualified distribution.

FBA, Ltd. Note
 * A NEW ROTH Comparison Calculator will be available on the NEW FBA Website.

FBA, Ltd. Note
 * Please contact Dick Watson for more information on the cost of the ROTH 401(k) Option.

4 - 12/31/2006 - FBA will be preparing Plan Amendments

As the end of 2006 approaches, FBA, Ltd. Is making sure that our clients plan documents are in compliance. Here is an update of the plan amendments and restatements that employers may need to adopt by the end of 2006 or early in 2007 in order to keep their plans qualified.

A. Final 401(k) and 401(m) Regulations

For 401(k) plans, the changes included in the final regulations are *required* so plans generally must be amended accordingly by the tax-filing deadline for the employer's 2006 plan year. The changes are also required for 401(m) plans with matching and/or after-tax contributions, and the same deadline applies. Profit-sharing plans using the safe-harbor rules for hardship distributions should adopt this amendment during the same time period. For plans that terminate prior to the deadline, the amendment must be made before the plan terminates.

B. KATRINA Amendment

[IRS Announcement 2005-70](#) permits a plan that currently does not include a hardship or loan provision to make a loan or hardship distribution to those affected by Hurricane Katrina. However, an employer that makes a hardship distribution or a loan without the enabling language in the plan must amend its plan no later than the end of the first plan year beginning after December 31, 2005.

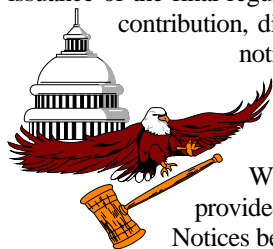
Laws enacted after the issuance of IRS Announcement 2005-70 (such as KETRA) modified the loan and hardship rules for those affected by hurricanes Katrina, Rita, or Wilma. The IRS Announcement only requires an amendment to permit hardships or loans. It does not require an amendment to modify the hardship or loan provisions in accordance with the legislative changes. An amendment to make those changes will not be required prior to 2007. We expect further guidance on this and will keep you up-to-date.

C. ROTH 401(k) Amendment (if applicable)

This is a *discretionary* amendment (required only for plans permitting Roth deferrals), so it must be made by the end of plan year during which Roth deferrals are first contributed.

D. Safe Harbor Notice 2007 (if applicable)

The final 401(k) regulations modified the information that is required to be in 401(k) plan safe harbor notices. Prior to the issuance of the final regulations, a safe harbor notice could refer to provisions of the summary plan description containing the contribution, distribution and vesting provisions of the plan. The final regulations now require that the safe harbor notice include the distribution and vesting provisions of the plan (i.e., incorporation by reference is not permitted). In addition, the notice must now include "contact information" where a participant can obtain more information.

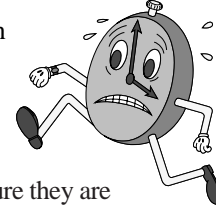


While the final 401(k) regulations are effective for plan years beginning in 2006, [IRS Notice 2005-95](#) provided relief from the changes in the safe harbor 401(k) plan notice requirements for the 2006 plan year. Notices being provided for 2007 plan years (e.g., notices that should be provided no later than December 2, 2006 for calendar year 2007 plan years) must conform to the new content requirements.

When preparing safe harbor notices for 2007 plan years, one should take into account the Pension Protection Act (PPA) change to the vesting requirement for profit sharing contributions. Effective for 2007 plan years, profit sharing contributions must vest under a schedule that satisfies either a 3-year cliff schedule or a 6-year graded schedule. Safe harbor notices must include the vesting provisions of the plan. Therefore, the vesting schedule that will apply in 2007 must be reflected in the 401(k) plan safe harbor notice for the 2007 plan year. Similarly, the notice must include a plan's deferral procedures. Therefore, it's likely that the IRS will require that the 401(k) plan safe harbor notice contain any automatic enrollment features that may be implemented in 2007.

YEAR-END REMINDERS for PLAN SPONSORS

We wish to remind plan sponsors that before the end of the year they should review what has been done and what still needs to be addressed. The below “Year-End Reminders” are some common considerations for many plan sponsors. However, the list is not intended to be all inclusive.



- ✓ **2006 YTD Deferrals** – Review the year-to-date deferrals for participants that want to reach the maximum \$15,000 elective deferrals limit & \$5,000 catch-up contribution limit. Make sure they are “on schedule” to reach these 2006 maximum limits.
- ✓ **2007 Benefit Limits** – Benefits, employee communication material, and administrative rules that are tied to annual cost-of-living adjustments should be modified to reflect recently announced changes. You’ll find the 2007 figures on page one of this newsletter.
- ✓ **PPA** – The recently enacted Pension Protection Act of 2006 includes several provisions designed to encourage more employers to automatically enroll employees in their 401(k) or other retirement savings plans starting in 2008. Employers should begin discussing with FBA, Ltd. the new safe harbor from non-discrimination testing, their default investments, and processing capabilities.
- ✓ **Employee Contribution Deposits** – Employers should confirm that employee contributions withheld from employee paychecks (and loan repayments) are deposited with the plan’s trust or insurance contract **as soon as administratively possible**. There is no longer any safe harbor guideline on this time limit.
- ✓ **Review Fidelity Bond** - Should the plan’s fidelity bond coverage be renewed or increased? Was a new plan established which should be covered? ERISA generally requires that every fiduciary of an employee benefit plan and every person who handles plan funds or other property be bonded. The bond amount must be at least 10% of the funds handled (the minimum required coverage amount is \$1,000 and the maximum coverage amount is \$500,000).
- ✓ **Beneficiary Designations** - Beneficiary designations should be reviews for completeness to avoid confusion about the proper beneficiary of plan benefits. For qualified retirement plans, a notary seal or plan representative’s witness must attest to all required spousal consent signatures. Some qualified plans require new designations at age 35. If this requirement is in your plan, verify that affected employees are reminded of it.
- ✓ **Social Security Earnings Limit** – Consider alerting employees who are Social Security recipients that they can forfeit a portion of their benefits if they earn wages exceeding earnings limit. The earning limit is \$2,870 per month for each month before a recipient attains the Social Security normal retirement age in 2007 (65 and 8 months if born in 1941; 65 and 10 months if born in 1942). The earning limit is \$12,960 per year for recipients who are younger than their Social Security normal retirement age. The earnings limit applies to compensation for current service, not compensation for past services. Thus, payments made from qualified and nonqualified retirement plans do not count as earnings.

*This summary is intended for information and educational purposes only and does not constitute financial, tax, or legal advice. Further, this information is general in nature and is not intended to address the particular needs of any specific plan. Please contact your financial, tax, or legal advisor for information about your specific situation.

FULLSERVICE SUPPORT

FRINGE BENEFIT ADMINISTRATORS, LTD. (FBA) and its strategic alliance partners, delivers all of the features you need to make your plan a success:

Plan Design & Implementation

- ▲ Flexible Plan Design
- ▲ Installation / Conversion Support
- ▲ Plan Documents & Administrative Manual

Recordkeeping & Compliance

- ▲ Daily Account Valuation
- ▲ Timely, Consolidated Quarterly Statements
- ▲ INVEST-Net / Internet Account Access
- ▲ Efficient Distribution & Loan Processing
- ▲ Compliance Testing & Government Reporting
- ▲ Newsletters & SuperStatements (Optional)

Education & Enrollment Support

- ▲ Educational Enrollment Materials
- ▲ On Site Enrollment Meetings
- ▲ Ongoing Participant Communications

Varied Investment Options

- ▲ Virtually Unlimited Mutual Fund Selection
- ▲ Individually Directed Brokerage Accounts
- ▲ LIFESTYLE "Model Portfolios" (Optional)

Trustee & Custodial Services

- ▲ Complete Trustee / Custodial Services
- ▲ Tax Withholding & Reporting

WHO TO CALL

For information concerning items in this newsletter, or information about our services, please ask for one of the following people. They will be pleased to assist you.

- ▲ **Your Plan Administrator**
- ▲ **Dick Watson - ext. 1030**
- ▲ **J. R. Piper - ext. 1037**
- ▲ **Steve Cranfield - ext. 1024**
- ▲ **Ed Dorman - ext. 1010**

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