

**Notice To Our
Defined Benefit & Cash Balance Plan Clients
Increase in PBGC Premium**

Pursuant to Title IV of ERISA, with certain exceptions all Defined Benefit Plans, including Cash Balance Plans, are subject to PBGC coverage. Chaired by the Secretary of Labor, the PBGC (Pension Benefit Guaranty Corporation) is a federal corporation created by the Employee Retirement Income Security Act of 1974. It currently protects the pensions of 44.1 million American workers and retirees in 30,330 private single-employer and multiemployer defined benefit pension plans. PBGC receives no funds from general tax revenues. Rather, operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans. In essence, the PBGC guarantees the payment of certain benefits under terminated Defined Benefit Plans. The exceptions are: 1) professional service firms (i.e. doctors, dentists, attorneys, accountants) with no more than 25 active participants, and 2) a Plan covering only substantial owners. Firms that fall under either of these two exceptions are not subject to PBGC coverage.

If your plan is subject to PBGC coverage, then as you are aware, you pay an annual premium based on the participant count as of the end of the prior plan year. This notice is to advise you that effective with plan years beginning on or after January 1, 2006 there is an increase in the PBGC premium. The Deficit Reduction Act of 2005, which was signed into law on February 8, 2006, includes an increase in the flat-rate premium from \$19 to \$30 per participant. There is no change at this time to the variable-rate premium which remains at \$9 per \$1,000 of unfunded vested benefits.

Why such a significant increase? Recent termination of a number of large, severely underfunded pension plans (e.g., LTV Steel, Bethlehem Steel, US Airways, United Airlines, Polaroid, and Kemper Insurance) has focused attention on the financial condition of the PBGC's insurance program. As of September 30, 2005, the end of the 2005 fiscal year, PBGC reported a \$22.8 billion deficit in the financial statements for its single-employer pension insurance program.

Please note that as pension practitioners, we strongly oppose small employers having to bear this increased cost because of the abuses of some very large corporations. Through the American Society of Pension Professionals & Actuaries (ASPPA), we have voiced our concerns to Congress and will continue to play an active role in keeping these issues in front of them. Congress is in the process of researching other viable alternatives that will force large underfunded plans to maintain a degree of solvency.