



**Longbow Asset  
Management Company**

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## **The Pension Protection Act of 2006 As Well As Important Changes for Roth and Traditional 401(k) Plans**

**The CPA Club of Tulsa  
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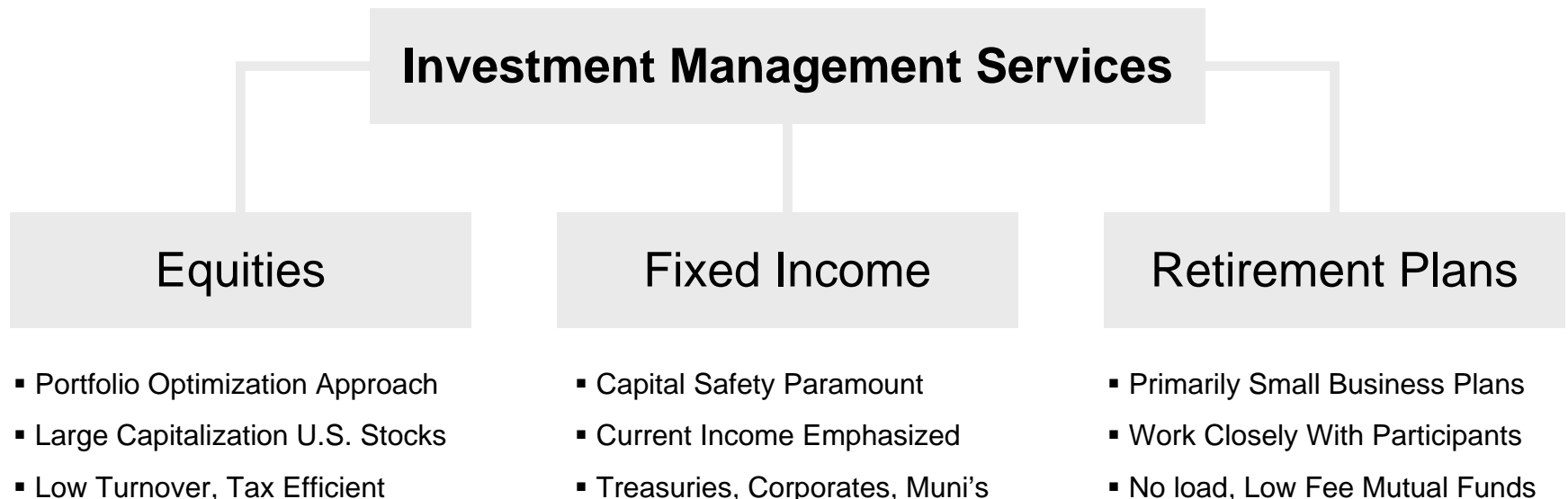
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# ***“Each Client Has Unique Needs. We Provide Unique Solutions”***

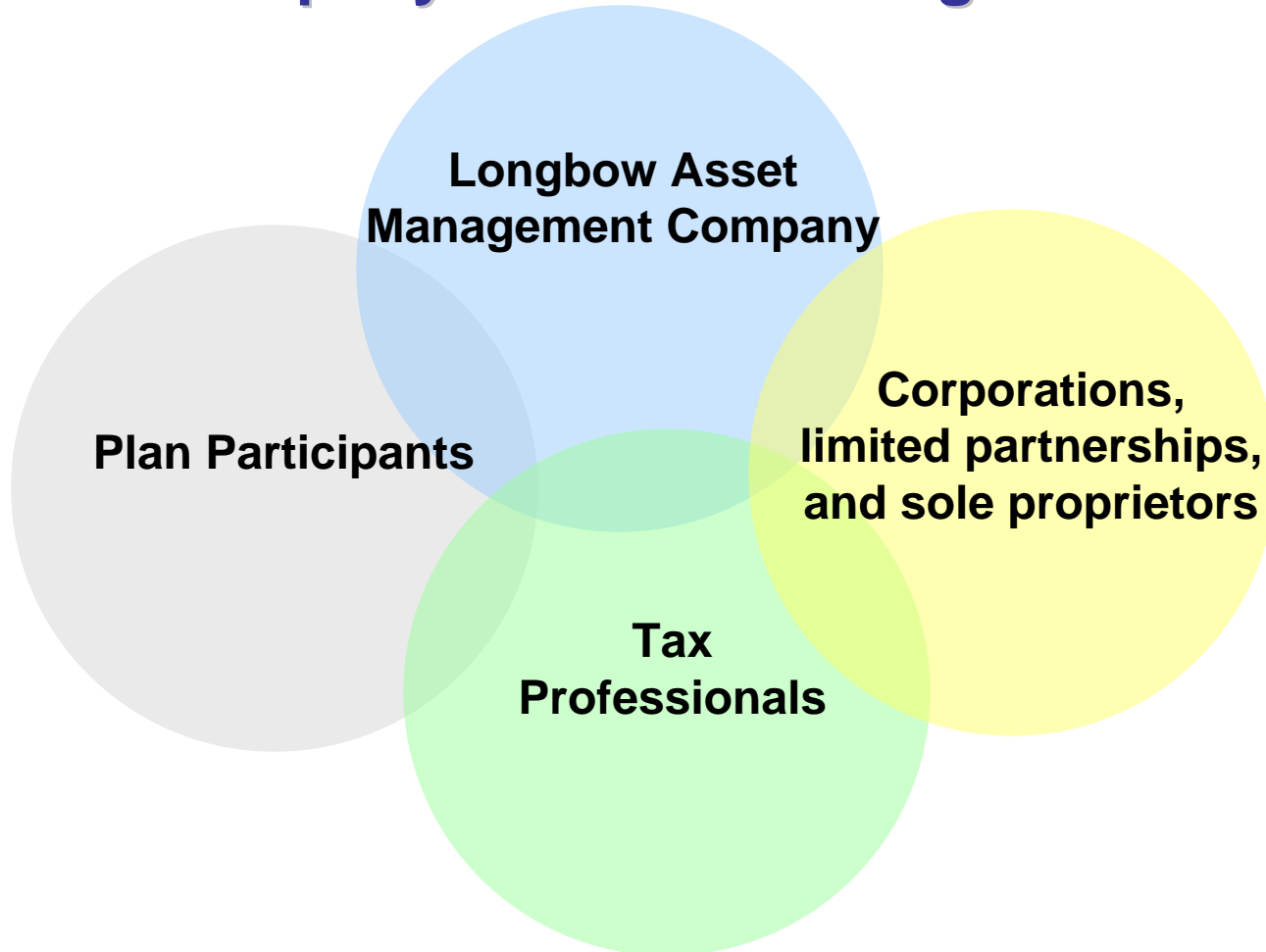
## **Company Description and Philosophy**

*Longbow Asset Management Company is a registered investment advisory firm based in Tulsa, Oklahoma. Our firm provides intelligent investment solutions specifically designed to achieve our clients’ definitive goal: long-term wealth accumulation.*



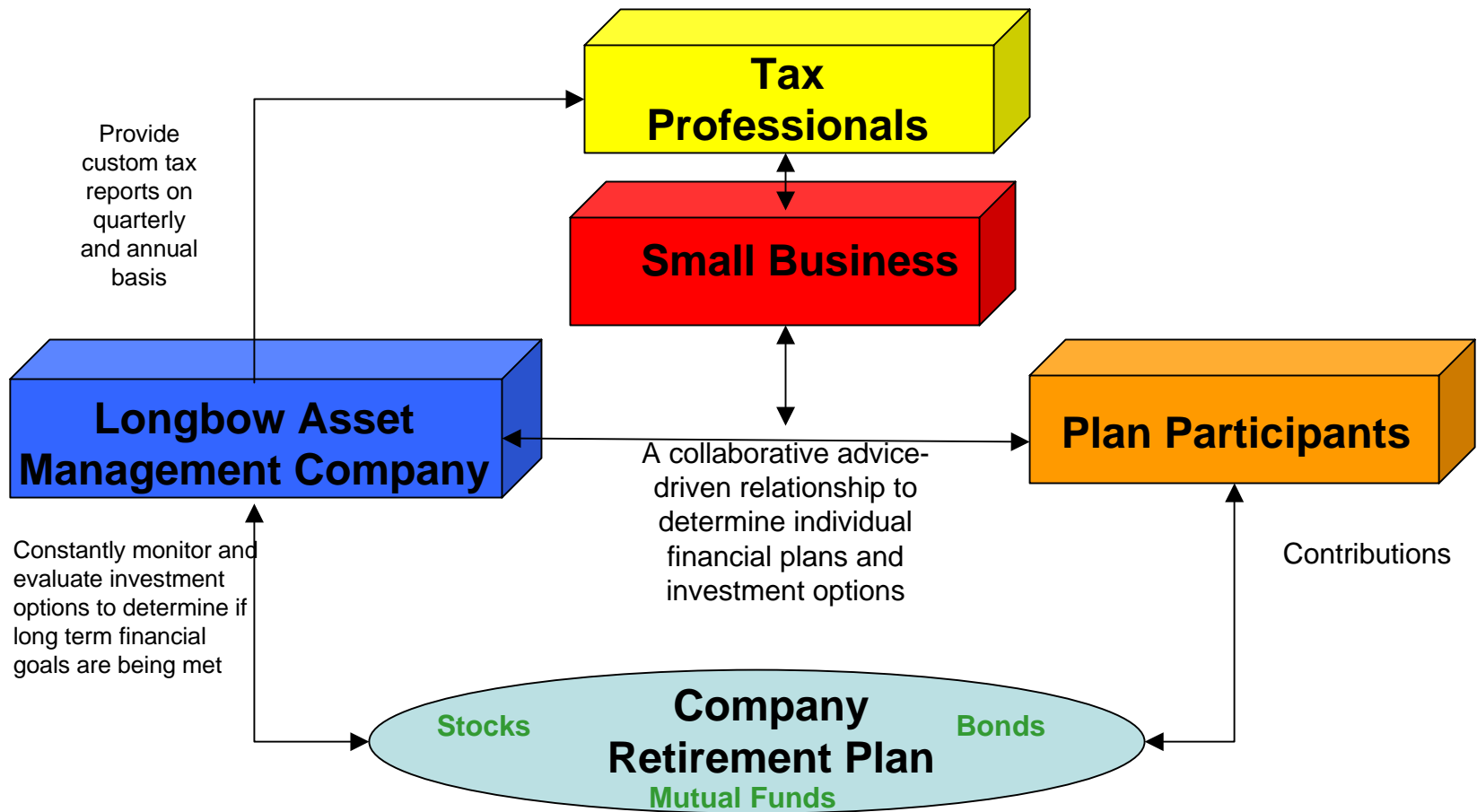


## **Where does Longbow Asset Management Company Fit in the Company Retirement Program Mix?**





# Longbow: A Partner in Company Retirement Planning



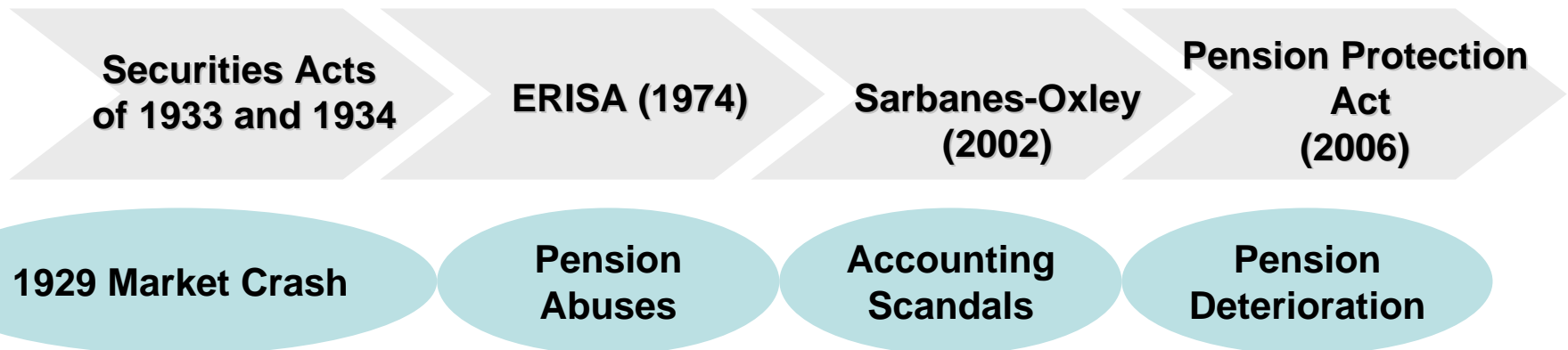


# History of Government Legislation Leading Up to The Pension Protection Act of 2006

**Government Legislation is Often Reactive Rather than Proactive**



## Historical Examples:





## The Securities Acts of 1933 and 1934

- Securities Act of 1933, coming on the heels of the stock market crash of 1929 and the ensuing great depression, aimed to increase the public trust in American markets. It accomplishes this goal through disclosure of important financial information in the registration statement, and in the prospectus. The information in the prospectus enables investors to make informed judgments about whether to purchase a company's securities.

Securities Exchange Act of 1934 was a sweeping piece of legislation in the United States. The Act and related statutes form the basis of regulation of the financial markets and their participants in the United States. It is commonly referred to as "the exchange act" or "the 34 act".



## **The Employee Retirement Income Security Act of 1974**

The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans. The act also created defined contribution plans and individual retirement accounts.



## **Pension Benefit Guarantee Corporation**

Pension Benefit Guarantee Corporation (PBGC) 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. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusted by PBGC, and recoveries from the companies formerly responsible for the plans.



## Sarbanes-Oxley Act of 2002

The **Sarbanes-Oxley Act of 2002**, also known as the **Public Company Accounting Reform and Investor Protection Act of 2002** and commonly called **SOx** or **SarbOx**; is a U.S. law passed in response to a number of major corporate and accounting scandals including those affecting Enron, Tyco and WorldCom. These scandals resulted in a decline of public trust in accounting and reporting practices. The legislation is wide ranging and establishes new or enhanced standards for all U.S. public company Boards, Management, and public accounting firms. The Act contains 11 titles, or sections, ranging from additional Corporate Board responsibilities to criminal penalties, and requires the Securities and Exchange Commission (SEC) to implement rulings on requirements to comply with the new law.

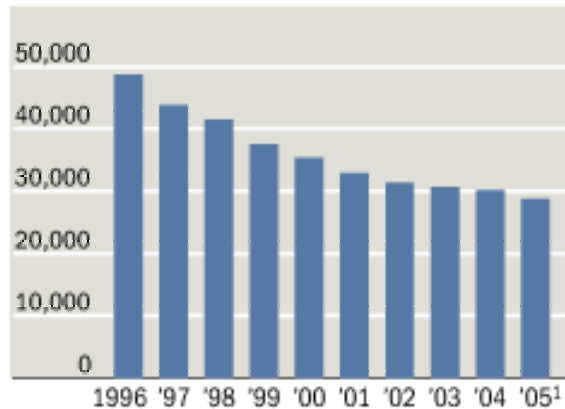


## Golden Years in Arrears

Though they are far from extinct, the prominence of traditional defined-benefit pension plans is waning, a trend unlikely to be reversed by a new pension-overhaul law.

### Fund Those 401(k)s

Number of insured employer pension plans

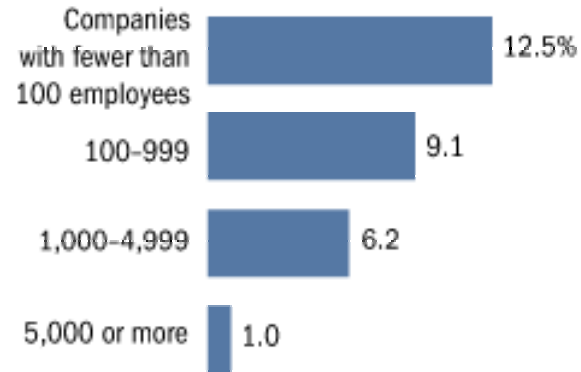


<sup>1</sup>As of Sept. 30, 2005

<sup>2</sup>As of Sept. 30, 2003

### Locked Out

Percentage of participants whose plans have been "hard frozen," or shut to new participants and accruals<sup>2</sup>

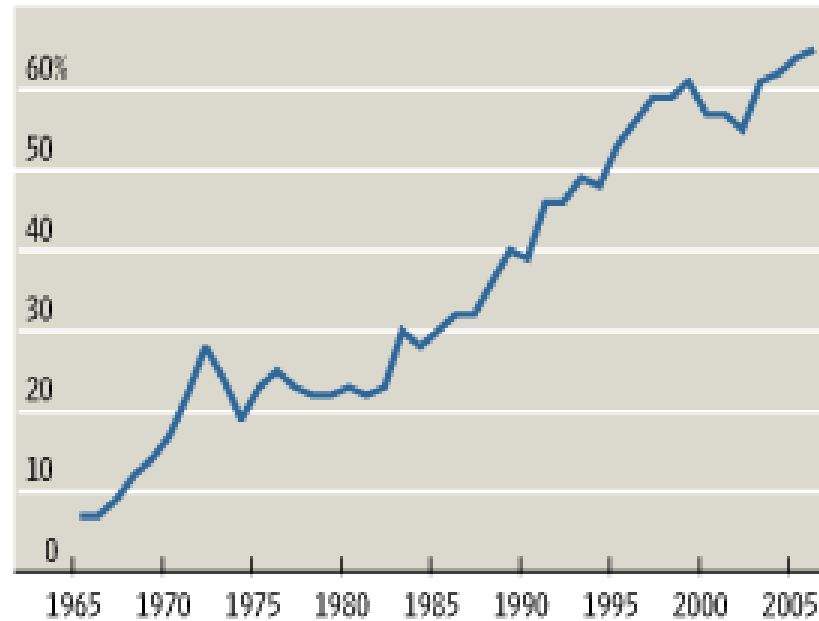


Source: Pension Benefit Guaranty Corp.



## **Unbalanced Portfolio**

Corporate equities share of state and local retirement fund financial assets



Source: Public Funds Survey

*Data Source: The Wall Street Journal, August 21, 2006*



## **4 Steps to reduce the investors' exposure to accounting and financial risk of under funded pension plans**

- **Shift to defined contribution plans for all future workers.**
- **Immediately recognize and fund the full cost of any benefit increase.**
- **Expand financial reports to include alternative funding assumptions.**
- **Gradually lower the required rate of return -- and invest accordingly.**



## The Number of Companies with Traditional Defined Benefit Plans Continues to Decline

The percentage of *Fortune 100* companies with a traditional defined benefit plan dropped from 89% to 37% from 1985 to 2005.

*Data Source: AK Steel Update, August 18, 2006*



“The fact that some airlines and companies in other industries have dumped their pension plans as part of bankruptcy reorganization points to a real problem, which Congress acknowledged in enacting new post-bankruptcy premiums last year in an effort to discourage this practice. Beyond that step, bankruptcy law reform -- and the appropriateness of the PBGC's mission -- are debates for another day. Right now, Congress needs to proceed with passage of a pension bill that puts our nation's retirement system on a sounder footing, and that bill needs to contain the Senate-approved relief provisions.”

July 3, 2006

**Capt. Ralph Hunter**

*President*

*Allied Pilots Association*

*Fort Worth, Texas*



*“Quickly adopting meaningful pension reform containing the airline-specific funding provisions also reasonably and pragmatically recognizes that, without those provisions, the Pension Benefit Guaranty Corporation is certain to be left holding the bill for the larger Delta plan. On the other hand, if this self-help pension relief is passed in time to make a difference, before the August recess, Delta, and other airline companies facing similar situations, will have the best chance to fund their own pension obligations and avoid a PBGC hand-off where possible -- exactly what we hope to do.”*

July 3, 2006

**Robert L. Kight**

*Vice President*

*Compensation Benefits and Services*

*Delta Air Lines*

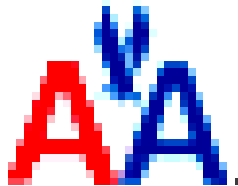
*Atlanta*



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## **A Tale of Two Pension Plans**





## How Many American's Will Be Affected by The Act?

55.4 million: Those in any type of retirement plant at their current job

44.7 million: Those who own an individual retirement account

21.9 million: Those currently receiving benefits from a retirement plan

12.1 million: Those eligible to participate in a 401(k) or 403(b) plan but are not doing so.

9.0 million: Those who have earned rights to benefits at a previous employer.

1.5 million: Those who own a Keogh plan (for the self employed)

*Data Source: EBRI – Fast Facts, August 1, 2006*



## Pension Protection Act 2006 Overview

- Economic Growth And Tax Relief Reconciliation Act of 2001 (EGTRRA) is now permanent
- IRA Forms and Document Amendments
- Retirement Plan Rollovers to IRAs
- Other Changes to IRAs
- Automatic Enrollment in Retirement Plans
- Other Retirement Plan Enhancements
- Investment Advice for Retirement Plans and IRAs



## **EGTRRA Is Here to Stay**

- Increased contribution and deferral limits
- Catch-up contributions
- Enhanced deduction limits
- Expanded rollover options
- Automatic rollover requirements for small plan balances
- Roth 401(k) and 403(b) deferral option
- Faster vesting for matching contributions
- Small employer plan start-up tax credit



## IRA Forms and Document Amendments

A new short-form 5500 filing would be available for small plans that cover less than 100 participants and are invested exclusively in easy-to-value investments, such as mutual funds;

All service providers receiving fees in excess of \$5,000 would be required to be listed, rather than only the 40 receiving the most compensation; and

Service providers receiving compensation from third parties in excess of \$1,000 in connection with plan services would be required to so indicate, including listing the payor of the compensation and the amount of the compensation – most significantly, this would appear to require information to be disclosed with respect to service providers who receive 12b-1 and other fees with respect to plan investments.



## **IRA Forms and Document Amendments Continued**

The legislative changes will affect certain IRA forms and documents, and will require amendments. However, the IRS has not yet announced the details for amending IRA documents.



## **Retirement Plan Rollovers to IRAs**

- Direct Rollovers to Roth IRAs
- Nonspouse beneficiaries of Qualified Retirement Plans



## Other Changes Affecting IRAs

- Modified adjusted gross income (MAGI) limits now indexed
- Income tax refund paid to IRA
- Contributions for employees of bankrupt employers
- Asset exclusion for charitable donations
- Penalty-free distributions for qualified reservists



## Automatic Enrollment in Retirement Plans

Nearly 30% of eligible workers fail to sign up for available 401(k) plans, a fact that frustrates company executives in two ways:

Nonparticipants are shortchanging themselves and their futures. According to research by Aon Consulting, these no-shows leave on the table a collective \$30 billion of unused company matches and increase the chances they won't have enough money to retire comfortably.

Low participation among rank-and-file workers can limit how much higher-paid workers are allowed to contribute to their retirement funds, thanks to IRS rules that govern how 401(k)s work

*Data Source: MSN Money Central*

*<http://articles.moneycentral.msn.com/RetirementandWills/InvestForRetirement/7Hot401kTrends.aspx>*



## **Other Retirement Plan Enhancements**

- Small employers may offer combined benefit and 401(k) plan option
- Quarterly and annual statements to participants
- Asset threshold for filing 5500-EZ increased to \$250,000
- After-tax assets can be rolled between 401(k) and 403(b) plans.
- Hardship distributions



## **Other Retirement Plan Enhancements Continued**

- Deadline for distribution notices is extended to no more than 180 days before the distribution
- Vesting Schedules are accelerated for certain employer contributions in defined contribution plans



## **Investment Advice for Retirement Plans and IRAs**

- Fiduciary advisors may provide personalized investment advice
- Fee based versus objective computer model
- New disclosures required



## Important Upcoming Dates

**October 15:** Third quarterly contribution due date for 2006 calendar year defined benefit plans.

**October 16:** File the 2005 **Form 5500**, *Annual Return/Report of Employee Benefit Plan* or **Form 5500-EZ**, *Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan* with DOL/EFAST for those who filed for a 2 1/2 month extension prior to August 1.

**November 1:** Last date for employers with **SIMPLE IRA plans** or SIMPLE 401(k) plans to notify eligible employees of salary reduction rights and of the type of employer contribution to be made.



**Q&A**