GLOSSARY OF PENSION TERMS

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The following terms are defined in an informal manner. Check with
Kravitz or your attorney before taking action based on these definitions.

ACA (Automatic Contribution Arrangement): A feature that may be added to a 401(k) Plan to automatically enroll employees in the plan at a minimum deferral level.

ACP (Actual Contribution Percentage) Test: A nondiscrimination test applied to employer matching contributions and employee voluntary after-tax contributions. The test is designed to limit the percentage of matching and voluntary amounts contributed by highly compensated employees compared to the percentage of similar amounts contributed by non-highly compensated employees.

ADP (Actual Deferral Percentage) Test: A nondiscrimination test designed to limit the percentage of employee 401(k) deferrals contributed by highly compensated employees compared to the percentage of employee deferrals contributed by non-highly compensated employees.

Affiliated Service Group: An affiliated service group consists of two or more related service or management employers. For testing purposes, all employees of the affiliated service group are treated as employed by a single employer.

AFTAP (Adjusted Funding Target Attainment Percentage): A measure of how well funded a defined benefit plan is, computed as the ratio of plan assets divided by benefit liabilities. If a plan has an AFTAP of less than 80%, the plan will be subject to benefit limitations, including restrictions on lump sum payments and possible limits on benefit increases. The AFTAP must be certified in writing by the actuary.

After-Tax Voluntary Contributions: An employee contribution that is taxed currently. When paid out, the principal contribution is distributed tax free, but the earnings on these contributions are taxable income. After-tax voluntary contributions are included in the annual additions limit and the ACP test. The after-tax contribution feature was popular 20 years ago but is rarely used now.

Alternate Payee: A spouse, former spouse, child or other dependent having a right to receive a portion of the participant's benefits under a Qualified Domestic Relations Order (QDRO).

Annual Addition: The amount of contributions and forfeitures allocated to a participant in a plan year in a defined contribution plan. For 2007 the annual addition limit is the lesser of $45,000 or 100% of compensation.

Annuity: A series of periodic payments that typically continues for the lifetime of the participant. Optional forms include a joint & survivor annuity and a term-certain annuity that pay a beneficiary a predetermined amount if the participant dies first.

Automatic Enrollment: A feature that can be added to a 401(k) Plan such that participants are automatically enrolled in the plan (start 401(k) contributions) unless they return an election form electing not to make contributions.

Balance Forward: A system of accounting that provides for the allocation of earnings and losses on a periodic basis (annual, quarterly, monthly, etc.). This is also called “traditional” recordkeeping.

Cash Balance Plan: A defined benefit plan that looks like a defined contribution plan. Participants have hypothetical account balances that earn a guaranteed rate of interest.

Catch-Up Contributions: Additional 401(k) contributions for individuals who have attained age 50 ($5,000 limit for 2007 and subject to cost of living increases).

CODA (Cash or Deferred Arrangement): The official IRS name for a 401(k) plan. The employee has the option to take cash or to defer a portion of their compensation into a 401(k) plan.

Conduit IRA (Individual Retirement Account): An IRA that is established for the sole purpose of receiving a distribution from a qualified plan. Oftentimes, money in a conduit IRA can be rolled back into a qualified plan (see Rollover IRA).

Controlled Group/Common Control: A group of business entities that is controlled by an individual, a group of individuals or another entity. For testing purposes, all employees employed by the controlled group are treated as being employed by a single employer.

Daily Valuation: A system of accounting that provides for the allocation of investment earnings and losses on a daily basis. Generally, the participant’s account is held in shares and the shares are valued on a daily basis.

Defined Benefit Plan: A plan that is designed to provide participants with a predefined and guaranteed benefit at a specified retirement age (e.g., a monthly benefit of 20 percent of compensation at age 65).

Defined Contribution Plan: A plan that provides an individual account for each participant in which benefits are based solely upon the amount contributed for each participant and subsequent asset gains and losses. Each participant is credited with their share of earnings or losses in the plan on a specified basis (daily, quarterly, annually, etc.).

Determination Letter: Letter issued by the IRS stating whether the plan meets plan qualification requirements.

Direct Rollover: A distribution from a qualified plan that the participant transfers directly to another retirement plan or to an Individual Retirement Account (IRA).

Discrimination: Discrimination occurs when highly compensated employees are treated more favorably than non-highly compensated employees. The IRS limits the amount of discrimination that can occur under a plan.

Disqualification: A plan loses its tax-favored, qualified status when it is disqualified. If a plan is disqualified, the company loses the ability to make tax-deductible contributions, and benefits become taxable to the employees.

EACA (Eligible Automatic Contribution Arrangement): An automatic deferral 401(k) Plan which is eligible for favored treatment because it meets certain IRS requirements. An EACA must use a QDIA.

Early Withdrawal Penalty: A 10% penalty on money withdrawn from a retirement plan before age 59½. There are some exceptions to the penalty, such as payments on account of death, disability, termination of employment after age 55 and payments to an ex-spouse due to a qualified domestic relations order.

EBSA (Employee Benefits Security Administration): The division with the Department of Labor (DOL) that is responsible for the regulatory and administrative provisions of ERISA. [This division was previously known as the PWBA (Pension and Welfare Benefits Administration).]

EGTRRA: Economic Growth and Tax Relief Reconciliation Act of 2001.

Elective Deferral: A contribution that an employee makes to a 401(k) plan.

Eligible Retirement Plan: An IRA and/or a qualified retirement plan that can receive a rollover.

Eligible Rollover Distribution: A distribution from a qualified retirement plan that can be rolled over to an eligible retirement plan.

EPCRS (Employee Plans Compliance Resolution System): An IRS program that allows plan sponsors to correct operational errors that would otherwise result in plan disqualification.

ERISA (Employee Retirement Income Security Act): A law passed in 1974 covering qualified retirement plans.

ESOP (Employee Stock Ownership Plan): A profit sharing, stock bonus, or money purchase plan, the funds of which must be invested primarily in employer company stock.

Excess Aggregate Contributions: The excess of matching and employee after-tax contributions made by highly compensated employees over the amount permitted by the Actual Contribution Percentage (ACP) test.

Excess Contribution: The excess of 401(k) contributions made by highly compensated employees over the amount permitted by the Actual Deferral Percentage (ADP) test.

Excess Deferral: The amount of elective deferrals made by a participant in excess of the 401(k) contribution limit for a calendar year.

Exclusive Benefit Rule: Plan fiduciaries must discharge their duties for the exclusive benefit of participants and beneficiaries.

FASB (Financial Accounting Standards Board): The board that sets uniform standards regarding the accounting treatment of contributions and the disclosure of plan information on Company financial statements.

Fiduciary: Any person or entity that exercises discretionary authority or control over a plan or its assets and any person who gives investment advice to the plan for a fee. Generally, the employer, the trustee and the investment advisor are fiduciaries.

Fiscal Year: The 12-month period used for accounting purposes for a business.

Five-Percent Owner: Any person who owns, directly or indirectly, more than 5% of the stock of the employer or more than 5% of the voting power of such stock. Due to stock attribution rules, certain family members of 5% owners are also treated as 5% owners.

Forfeitures: The portion of an account that a participant loses if they terminate employment before becoming 100% vested.

401(k) Plan: A retirement plan that allows employees to contribute money out of their paychecks (usually on a pre-tax basis) for retirement. The plan can allow employer matching contributions and sometimes provides for profit sharing contributions. A 401(k) Plan is a type of profit sharing plan.

403(b) Plan: A retirement plan that is provided by non-profit entities such as public school systems, hospitals and 501(c)(3) entities. These plans are also called Tax-Sheltered Annuities (TSA).

457 Plan: A non-qualified plan for governmental and tax-exempt organizations.

Frozen Plan: A plan that continues to exist even though employer contributions have been discontinued and/or future accruals have ceased.

Funding Deficiency: For defined benefit or money purchase plans, the amount of the minimum required contribution that was not funded by the minimum funding deadline (8½ months after plan year-end).

Gateway Contribution: A minimum contribution that must be deposited to the plan that allows a plan to use ”New Comparability” to pass non-discrimination requirements.

GATT: An acronym for the Uruguay Round Agreements Act (Uruguay Round of the **G**eneral **A**greement on **T**ariffs and **T**rade) that revised minimum lump-sum payments from defined benefit plans and impacted other pension law after 1994.

GUST: An acronym for the following four laws: the Uruguay Round Agreements Act (**G**ATT), the **U**niformed Services Employment and Reemployment Rights Act of 1994, the **S**mall Business Job Protection Act of 1996 and the **T**axpayer Relief Act of 1997.

Hardship Withdrawal: An in-service withdrawal from a 401(k) or 403(b) plan because of the immediate and heavy financial need of a participant.

HCE (Highly Compensated Employee): An employee who 1) is a 5% owner for the preceding or current year; or 2) earned more than a specified amount in the preceding year. The plan can also require that the employee be a member of the "top-paid group" of employees (see top-paid group for details).

Integration: A feature of the plan whereby benefits are "integrated" with Social Security. An integrated plan generally provides larger benefits for employees who earn more than the Social Security taxable wage base. After 1986, integration was renamed "permitted disparity."

Keogh Plan: A qualified retirement plan that covers self-employed persons and employees of self-employed persons (see Self-employed Person).

Key Employee: A participant who at any time during the plan year is 1) a more than 5 percent owner of the employer; 2) an officer earning more than $130,000 (indexed); or 3) a more than 1 percent owner earning more than $150,000. Key employees are instrumental in determining whether a plan is top-heavy (see top-heavy).

KSOP: A combination 401(k) and employee stock ownership plan (ESOP).

Leased Employee: An individual (not an employee) who, pursuant to an agreement between the employer and another entity, provides services for and under the direction of the employer and who must be counted as an employee for purposes of discrimination testing. Can include individuals hired from a management organization or a professional employer organization (PEO).

Leveraged ESOP: An employee stock ownership plan that borrows money to acquire employer stock.

Minimum Funding: The minimum amount that must be contributed to a defined benefit or money purchase plan within 8½ months after plan year-end. If minimum funding is not met, a funding deficiency occurs and an excise tax is due (see Funding Deficiency).

Money Purchase Pension Plan: A defined contribution plan under which the employer's contributions are mandatory.

Multiemployer Plan: A retirement plan sponsored by more than one employer that is established pursuant to a collective bargaining agreement (union).

Multiple Employer Plan: A retirement plan to which a number of unrelated employers contribute and that is not a multiemployer plan. Each employer must be treated separately for discrimination testing.

New Comparability: A feature of a plan in which different contribution levels are provided for different groups of employees. The plan must pass a nondiscrimination test to prove that the plan does not discriminate in favor of highly compensated employees.

Non-elective Contribution: The employer's profit sharing contribution. The employee has no control over the contribution; therefore it is "non-elective."

Non-forfeitable Benefits: The portion of the account in which the participant is vested and therefore cannot be forfeited.

Non-qualified Plan: A retirement plan that purposely does not meet IRS qualification requirements. Plan designs can be either defined benefit or defined contribution in nature and usually only cover a select group of employees. Generally, the corporation does not take a tax deduction for contributions to the plan until benefits are distributed to the participant.

Normal Retirement Age: An assumed retirement age that is specified in the plan document. Participants are not required to retire when they reach retirement age. Participants generally continue to earn benefits if they work past retirement age. Participants are 100% vested at normal retirement age.

OASDI (Old Age, Survivors, and Disability Insurance): Payroll tax imposed on employers and employees. The OASDI tax rate is used in determining the amount of benefits provided by a plan using permitted disparity (integration).

Officer: An administrative executive of a corporation. The determination of whether an employee is an officer is made on the basis of all facts and circumstances and depends upon the amount of responsibility the person has. An employee's job title has no bearing on whether the employee is an officer.

One-Percent Owner: Any person who owns, directly or indirectly, more than 1 percent of the stock of the employer or more than 1 percent of the voting power of such stock.

Partial Termination: A partial termination occurs when more than a certain percentage of plan participants leave the plan for a reason not of their choosing (e.g., layoff or plant closure). If the plan experiences a partial termination, affected employees must generally become 100% vested in their employer accounts. As a general rule, if more than 20% of a plan's participants are terminated over a two-year period, the situation should be reviewed with legal counsel.

Party-in-Interest: An entity or person such as the plan sponsor, trustee, fiduciary or service provider which, because of his or her relationship with the plan, is prohibited from entering into certain transactions with the plan.

PBGC (Pension Benefit Guaranty Corporation): A nonprofit governmental corporation, functioning under the Department of Labor, which is responsible for insuring benefits under certain defined benefit plans.

PPA: Pension Protection Act of 2006.

Permitted Disparity: A feature of the plan whereby larger benefits are provided to employees who earn over the Social Security taxable wage base. Prior to 1986, this was referred to as "integration."

Plan Administrator: The entity that has responsibility to administer the plan (i.e., collect data, calculate contributions and pay benefits). Generally, the company is the Plan Administrator. Oftentimes, the Company will appoint a committee to act as its agent to administer the plan. In addition, the Plan Administrator or committee can hire a company (third party administrator or recordkeeper) to help it administer the plan. The Plan Administrator has legal responsibility for the plan and can be sued.

Plan Sponsor: The business entity that sponsors the plan and has responsibility for the plan.

Plan Year: Any 12-consecutive-month period that has been chosen by the plan for keeping its records. The plan year does not have to coincide with the employer's taxable year.

Profit Sharing Plan: A defined contribution plan under which the employer makes discretionary profit sharing contributions. A 401(k) plan is a type of profit sharing plan.

Prohibited Transactions: Specified transactions that may not be entered into (directly or indirectly) by a party-in-interest and the plan. These include loans between the parties and the sale of assets.

Prudent-Man Rule: A fiduciary must act "with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." The prudent-man rule is now sometimes called the prudent expert rule.

P.S. 58 Costs: Costs applied to current life insurance protection provided in the plan. P.S. 58 costs are required to be reported as taxable income to the participant via Form 1099R.

PWBA (Pension and Welfare Benefits Administration): The division with the Department of Labor (DOL) that is responsible for the regulatory and administrative provisions of ERISA. This division is now known as the EBSA (Employee Benefits Security Administration).

QACA (Qualified Automatic Contribution Arrangement): A type of 401(k) Plan that provides for automatic enrollment, a minimum profit sharing or matching contribution and 100% vesting after two years of service. A QACA is deemed to satisfy the ADP Test.

QDIA (Qualified Default Investment Alternative): The default investment fund for a participant directed defined contribution plan that meets with Department of Labor requirements.

QDRO (Qualified Domestic Relations Order): A domestic relations order (DRO) that relates to the marital property rights or child support that has been reviewed by the plan administrator and has been determined to be "qualified."

QJSA (Qualified Joint and Survivor Annuity): An immediate annuity for the life of the participant, with a survivor annuity for the life of the participant's spouse.

QNEC (Qualified Nonelective Contribution): An employer contribution that is 100% vested and subject to the same distribution requirements as 401(k) contributions. QNECs are often deposited to enable the plan to pass the 401(k) ADP Test. (See ADP Test.)

QOSA (Qualified Optional Survivor Annuity): Optional annuity that must be offered to terminated participants by plans that offer joint and survivor annuities effective for plan years beginning after January 1, 2008.

QPSA (Qualified Pre-retirement Survivor Annuity): An immediate annuity on the life of the surviving spouse of a participant who dies before the annuity starting date.

QSLOB (Qualified SLOB): A qualified separate line of business (see SLOB).

Qualified Plan: A plan that meets the requirements of the Internal Revenue Code, for which the company can make tax-deductible contributions and the amounts are tax-deferred for employees until a withdrawal is made.

Recordkeeper: The entity (bank, mutual fund, insurance company, third party administrator (TPA), etc.) that maintains the participant accounts and issues participant statements.

Reportable Event: An event that must be reported to the PBGC to indicate that a defined benefit plan is in danger of being terminated and may not have sufficient assets to pay benefits.

Required Beginning Date: The date by which plan distributions must commence. For 5% owners, it is generally the April 1 following the year in which the owner attains age 70½. For non-5% owners, it is generally the April 1 following the latter of attainment of age 70½ or termination of employment.

Required Minimum Distributions: The minimum amount that must be paid to a participant each year after attaining age 70½.

Rollover: A tax-free transfer of cash or other assets from one retirement plan to another retirement plan or to an IRA.

Rollover IRA: An individual retirement account that is established for the sole purpose of receiving a distribution from a qualified plan. Oftentimes distributions in rollover IRAs can be rolled back into a qualified plan (also see Conduit IRA).

Roth 401(k): A feature that can be added to a 401(k) Plan that allows participants to make after-tax 401(k) contributions to the plan. Once a qualified distribution is made, the principal and earnings on these contributions are distributed tax free.

Roth IRA: An IRA in which the contributions are non-deductible and the distributions are non-taxable.

SAR (Summary Annual Report): A summary of the Form 5500 (annual report) that is required to be distributed to plan participants.

Section 404(c) Plan: Any defined contribution plan in which employees direct the investment of their account and the plan meets certain requirements. Under a Section 404(c) plan, a participant will not be considered a fiduciary and no other fiduciary shall be held liable for the participant's investment losses.

Self-employed Person: A sole proprietor or a partner in a partnership who declares earned income. A sole proprietor's earned income is reported on Schedule C and a partner's earned income is reported on Schedule K-1 to Form 1040.

SEP (Simplified Employee Pension): A retirement program that takes the form of IRAs for all eligible employees.

SERP (Supplemental Executive Retirement Plan): A non-qualified defined benefit type retirement plan for executives.

SIMPLE (Savings Incentive Match Plan for Employees): A simplified retirement plan structured as an IRA plan that allows employees to make elective contributions and requires employers to make matching or non-elective contributions.

SLOB (Separate Line of Business): A line of business that is organized and operated separately from the remaining businesses of the employer. SLOBs can maintain separate retirement plans and/or be tested separately if it is determined they are a Qualified SLOB (QSLOB) as defined by the Internal Revenue Code.

Social Security Retirement Age: The age, used as the normal retirement age under the Social Security Act to pay unreduced benefits, that depends on the calendar year of birth.

SMM (Summary of Material Modifications): A modification to the SPD that is required to be distributed to all participants. The SMM must also be distributed to new participants with the SPD, until the SPD is revised to incorporate the modification.

SPD (Summary Plan Description): A detailed, but easily understood, summary of the plan that must be provided to participants and beneficiaries.

Stock Bonus Plan: A type of defined contribution plan that holds company stock and in which benefit payments generally must be made in employer stock.

Target Benefit Plan: A cross between a defined benefit plan and a money purchase plan, whereby the annual contributions are determined based on a defined benefit, but the ultimate benefit is whatever is in a participant's account balance (as credited with gains/losses) upon termination or retirement.

Top-heavy Plan: A plan in which more than 60% of the account balances are credited to the key employees. Top-heavy plans must provide minimum benefits and must meet minimum vesting requirements.

Top-paid Group: Used to define highly compensated employees (HCEs) by limiting those otherwise eligible to be HCEs to the top 20% paid group.

TPA (Third Party Administrator): An outside company hired by the Plan Administrator to assist in administering the plan.

Trust: A legal entity established under state law to hold and administer plan assets. Federal law allows the trust to be tax-exempt.

Trustees: The parties responsible for managing the trust. The trustees can manage the plan's assets or can appoint an investment manager.

TSA (Tax Sheltered Annuity): A type of retirement plan provided by non-profit entities such as public school systems, hospitals and 501(c)(3) entities. These plans are also called 403(b) plans.

12b-1 Fee: A fee for the advertising, marketing and distribution of a mutual fund.

USERRA: The Uniformed Services Employment and Reemployment Rights Act of 1994, which prohibits discrimination against employees because of membership in the uniformed services.

Vesting: The percentage of a participant's account or benefit that he or she owns and is entitled to when he or she terminates employment.

Voluntary Contributions: After-tax amounts that a participant voluntarily contributes to a retirement plan. Voluntary contributions are included in the annual additions limit and the ACP test.

Year of Service: As defined by the plan document, either a 12-month period (elapsed time) or a 12-month period in which the participant is credited with at least 1,000 hours of service. The 12-month period can be measured by the participant's employment year or on a plan year basis as defined by the plan document.