Independent Actuaries, Inc.

REPORTING REQUIREMENTS FOR PLANS WITH LESS THAN 100 PARTICIPANTS

Plans that file Form 5500 are required to include detailed schedules regarding plan assets and have an audit by an independent qualified public accountant. However, the requirement for the detailed schedules and audit is waived for a plan with fewer than 100 participants *if the plan meets the following requirements.*

Under the new regulations, in order to be eligible for the waiver, **either**:

a. At least 95% of plan assets must be "qualifying assets", **or**
b. Any person handling plan assets that are not "qualifying" must be bonded for the amount of assets that are not "qualifying".

The determination regarding the percentage of assets that are "qualifying" and who handles the assets that are not "qualifying" is made at the beginning of each plan year, based on activity during the prior plan year. Special rules apply to the first plan year.

Plans using the waiver will also have to include additional disclosures in their Summary Annual Reports regarding qualifying assets and any bonding.

WHAT ARE QUALIFYING ASSETS?

a. Any assets held by a bank or similar financial institution
b. Any asset held by an insurance company
c. Any asset held by an organization registered as a broker-dealer under the Securities Exchange Act of 1934
d. Any asset held by any other organization authorized to act as trustee for an IRA
e. Mutual fund shares
f. Investment and annuity contracts issued by an insurance company
g. Qualifying employer securities
h. Participant loans within the limits of the law and plan
i. Individual participant accounts where the participant directs the investment and receives a statement from a registered financial institution at least annually.

SO, WHAT KINDS OF ASSETS ARE **NOT** "QUALIFYING ASSETS"? Assets held directly by an individual plan trustee, and not otherwise listed above, are not "qualifying assets". This might include land, collectibles and limited partnerships. It also could include individual stocks and bonds if held directly by the individual trustee. Also, participant loans that exceed the limits specified in the law or plan are not "qualifying assets".

IF MY PLAN FILES A 5500-EZ, DOES THIS AFFECT ME? No. Plans that file a 5500-EZ (plans covering only the business owner or business owner and spouse) are not subject the additional reporting and audit requirements.

WHAT SHOULD I DO NOW? As long as at least 95% of your plan's assets are "qualifying assets", you already qualify for the waiver. If your plan holds non-qualifying assets, the additional reporting and audit can substantially increase the complexity and expense of operating your plan. The new conditions on the waiver apply to plan years beginning after April 17, 2001. However, that date is not that far off. In order to qualify for the waiver, you need to meet the conditions **before** the plan year begins. If your plan does not already qualify for the waiver, you may want to start considering what actions are best so that your plan will qualify by the time the new conditions apply. These actions might include selling non-qualifying assets, moving non-qualifying assets to a registered financial institution or securing the necessary bond.

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT YOUR CONSULTANT.

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