

Automatic Enrollment

Updated for Final QDIA
(Default Fund) Regulations

The Pension Protection Act of 2006 (PPA) clears the way for 401(k) plan sponsors to implement automatic enrollment and offers a number of benefits to employers who do so. Is automatic enrollment right for your plan?

How does automatic enrollment work?

All eligible employees are enrolled in the plan unless they affirmatively opt out. The plan sponsor selects the initial rate of salary deferral, as well as an optional schedule for future rate increases. Employees must be notified in advance of the automatic enrollment, and retain the right to change their elections at any time, including the right to discontinue deferrals.

Is automatic enrollment an option for all 401(k) plan sponsors?

Yes! The PPA allows all 401(k) plan sponsors to implement automatic enrollment by **immediately pre-empting any state wage withholding laws.**

Why consider automatic enrollment for your retirement plan?

Help your employees prepare for retirement. Most employees will acknowledge that they could use a push to start saving. A recent survey found that 69% of employed workers favored automatic enrollment and 65% also favored automatically increasing the percentage of salary contributed after a pay raise.¹

Maximize use of the benefit you already offer your employees. Automatic enrollment can dramatically increase 401(k) participation rates, on average from 66% participation to 92%.²

Avoid problems with non-discrimination testing. Low participation among lower-paid employees can limit contributions by highly-compensated employees. Increasing participation rates with automatic enrollment can help plans pass the tests. And, top-heavy and ADP/ACP testing requirements are waived for plans following the Safe Harbor formula of automatic enrollment with automatic deferral increases (see details below).

Automatic Enrollment Safe Harbor – Effective 2008

Plans adopting the following formula will be exempt from top-heavy and ADP/ACP testing.

- Employees must be given a reasonable period of advance notice, instructions for making their own investment elections, and a way to opt out of the plan

Automatic Deferral Level	
Year 1	3%
Year 2	4%
Year 3	5%
Year 4 and after	6% (10% maximum)

Required Employer Contribution

First 1% of Pay Deferred into the Plan	100% Employer Match
2% – 6%	50% Employer Match

- Alternative: 3% non-elective contribution to all eligible employees
- Employer matching or non-elective contributions are fully vested after two years

Seligman Growth 401(k) automatic enrollment includes:

- No additional charge for automatic enrollment
- Plan document support
- Program guidance and ERISA support — provided by Ascensus, Inc.
- Plan sponsor reporting³ to help with employee enrollment and sample notifications regarding annual increases in deferral percentages (as defined by you for coordination with your company's payroll vendor)
- Plan sponsor website to monitor participant status
- Participant communications package
- Ready-to-use materials accessible on the Web

FOR MORE INFORMATION OR TO RECEIVE A CUSTOMIZED PROPOSAL, CONTACT YOUR FINANCIAL ADVISOR TODAY.

¹ Employee Benefit Research Institute, *2006 Retirement Confidence Survey*.

² Holden and Vanderhei, *The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement*, Investment Company Institute and Employee Benefit Research Institute, July 2005.

³ Please note that reporting is contingent upon Ascensus' receipt of certain data that is validated by you as the plan sponsor.

Not all funds mentioned may be available through all firms.

Section 404(c) Relief for Default Investments

Automatic enrollment dramatically increases plan participation — but also dramatically increases the number of participants in the default fund for extended periods of time. One study found that even after several years, fully half of automatically-enrolled participants had their contributions invested exclusively in the plan's default fund.¹

The Pension Protection Act extends Section 404(c) relief of fiduciary liability to plan sponsors using **Qualified Default Investment Alternatives** (QDIAs) for participants who fail to choose their own investments. Long-term QDIAs include lifecycle funds, target-date retirement funds, balanced funds, and professionally managed accounts — but *not* money market or stable value funds, as these may not provide the growth potential that long-term savers need to meet their retirement goals.²

Seligman TargETFundsSM: An Innovative Default Fund Solution

THE PENSION PROTECTION ACT PROVIDES AN OPPORTUNITY TO ENHANCE YOUR PLAN'S DEFAULT FUND BY PROVIDING PARTICIPANTS WITH THE POTENTIAL FOR LONG-TERM GROWTH.

The Seligman TargETFunds Advantage:

- Consists of multi-asset class mutual funds
- Invests in ETFs which seek to track the market returns of underlying indices³
- Reduces active-manager risk
- Helps plan sponsors satisfy their fiduciary responsibilities
- Offers an alternative to cash for long-term defaulters
- Provides cost-effective diversification⁴

Consider a single-fund default solution using the balanced Seligman TargETFund CoreSM fund, or employ the entire suite of Funds in a multi-fund default option to simultaneously serve a variety of age groups — allowing a plan sponsor to automatically allocate defaulted assets to an appropriate fund based on an employee's date of birth.

- **Seligman TargETFund 2045SM** for those planning to retire around the year 2045.
- **Seligman TargETFund 2035SM** for those planning to retire around the year 2035.
- **Seligman TargETFund 2025SM** for those planning to retire around the year 2025.
- **Seligman TargETFund 2015SM** for those planning to retire around the year 2015.
- **Seligman TargETFund Core** for those seeking a diversified, balanced portfolio; or those in or nearing retirement; or those intending to seek withdrawals from invested assets.

¹ Choi, et. al., *For Better or For Worse: Default Effects and 401(k) Savings Behavior*, National Bureau of Economic Research Working Paper No. 8651.

² Effective 12/23/07. The Department of Labor considers capital preservation default options acceptable only for default periods of less than 120 days or for money invested in such a default option prior to this effective date. While they offer greater potential for capital appreciation, the equity investments within multi-asset class funds like Seligman TargETFunds carry greater investment risk and may be less liquid as compared to stable value funds and money market funds. Stable value funds typically invest in high-quality bonds and interest-bearing contracts and guarantee to maintain the value of principal and accumulated interest, and money market funds typically seek to maintain a consistent net asset value of \$1.00 per share by investing in short-term high quality debt securities. In addition, money market funds and stable value funds generally carry lower fees and expenses than multi-asset class funds like Seligman TargETFunds. Mutual fund investments are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

³ Exchange-traded funds (ETFs) generally seek investment results that generally correspond to the performance, before fees and expenses, of a specific underlying index. Underlying ETFs generally will not be able to duplicate exactly the performance of the underlying indexes they seek to track, which can be due to, among other factors, the expenses that the Underlying ETF pays, regulatory constraints, investment strategies or techniques undertaken by an Underlying ETF (e.g., options and futures) and changes to an underlying index. In addition, there may exist a lack of correlation between the securities in an index and those actually held by an Underlying ETF, as well as a lack of correlation between the asset classes used to develop Seligman's asset allocation methodology and the Underlying ETFs.

⁴ A typical investor would incur lower costs through an investment in the Seligman TargETFunds (which includes professional portfolio management based on Seligman's proprietary Time Horizon Matrix research) as compared to a direct investment (without professional portfolio management) in the same ETFs held by the Seligman TargETFunds. Such cost comparison takes into consideration transaction costs, sales charges, and expenses, as applicable. Diversification does not assure a profit nor protect against loss in a declining market.

Risks of Asset Classes and ETFs: The stocks of smaller companies may be subject to above-average market-price fluctuations. A portfolio with fewer holdings may be subject to greater volatility than a portfolio with a greater number of holdings. The products of technology companies may be subject to severe competition and rapid obsolescence, and technology stocks may be subject to greater price fluctuation, government regulation, and limited liquidity as compared to other investments. There are specific risks associated with global investing, such as currency fluctuations, foreign taxation, differences in financial reporting practices, and rapid changes in political and economic conditions. Real estate investments may be subject to specific risks, such as risks to general and local economic conditions, and risks related to individual properties. Bonds are subject to interest-rate risk, credit risk, prepayment risk, and market risk.

Investments by the Funds in ETFs involve risk, including the risk of loss of principal. An investor in a Fund will indirectly bear the operating expenses of the ETFs in which it invests. Thus, the expenses borne by the investor will be higher than if he or she invested directly in the ETFs, and the returns may therefore be lower. To the extent that a Fund has a substantial percentage of its assets exposed to an industry or sector through its investment in ETFs, that Fund's performance may be negatively affected if that industry or sector falls out of favor.

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