Seligman Growth 401(k)

Automatic Enrollment

Updated for the Pension Protection Act of 2006

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, beginning in 2008, top-heavy and ADP/ACP testing requirements will be waived for plans following the Safe Harbor formula of automatic enrollment with automatic deferral increases (see details below).

Automatic Enrollment Safe Harbor – Beginning 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 BISYS®
- Plan sponsor reporting[3] 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 BISYS' receipt of certain data that is validated by you as the plan sponsor.

Default Investments for Automatic Enrollment Plans

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.*

Traditional default investments, such as money market and stable value funds, may not provide the growth potential that long-term savers need to meet their retirement goals.

Accordingly, the PPA directs the Department of Labor to provide guidance on appropriate default funds. The Department of Labor has proposed that *Qualified Default Investment Alternatives* will include lifecycle funds, target-date retirement funds, balanced funds, and professionally managed accounts. The final regulations for default options should be available in 2007.

Section 404(c) Relief for Default

The PPA extends to plan sponsors Section 404(c) relief of fiduciary liability for default investments, as long as the plan sponsor provides adequate notice to participants about the default investment and the ability to make their own investment choices.

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

Seligman Target*Horizon* ETF Portfolios℠: 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.

Seligman Target*Horizon* ETF Portfolios:

- Multi-asset class mutual funds
- Invest in ETFs which seek to track the market returns of underlying indices[1]
- Provide cost-effective diversification[2]
- Help plan sponsors satisfy their fiduciary responsibilities
- Offer an alternative to money market or stable value funds for long-term investors[3]
- Reduce active-manager risk

Consider a single-fund default solution using the balanced Seligman Targ*ETF*und Core℠ Fund, or employ the entire suite of Funds in a multi-fund default option to simultaneously serve a variety of age groups.

- **Seligman Targ*ETF*und 2045℠** for those planning to retire in about 40 years.
- **Seligman Targ*ETF*und 2035℠** for those planning to retire in about 30 years.
- **Seligman Targ*ETF*und 2025℠** for those planning to retire in about 20 years.
- **Seligman Targ*ETF*und 2015℠** for those planning to retire in about 10 years.
- **Seligman Targ*ETF*und Core℠** for those seeking a diversified, balanced portfolio; or those in or nearing retirement; or those intending to seek withdrawals from invested assets.

[1] Exchange-traded funds (ETFs) generally seek investment results that generally correspond to the performance, before fees and expenses, of a specific underlying index.

[2] A typical investor would incur lower costs through an investment in the Seligman Targ*ETF*unds (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 Targ*ETF*unds. 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.

[3] While they offer greater potential for capital appreciation, the equity investments within a multi-asset class fund like Seligman Targ*ETF*unds 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 a multi-asset class fund like Seligman Targ*ETF*unds.

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 a portion of 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.

Seligman Target*Horizon* ETF Portfolios℠ are distributed by Seligman Advisors, Inc.

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