



PLAN SPONSOR ADMINISTRATIVE GUIDE

CAPITAL RETIREMENT PLAN SERVICES
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WELCOME ABOARD!

Welcome! Thank you for choosing Capital Retirement Plan Services for your retirement plan needs. We offer you a full array of retirement plan services including innovative plan design, state-of-the-art record-keeping systems, and comprehensive third party administration. We're dedicated to making your retirement plan a success for your company and for your employees.

We have designed this Administrative Guide to help you better understand how your retirement plans works and what you must do to fulfill your duties and responsibilities as the plan sponsor. While we hope that this guide is helpful, it is only a guide. It is not to be construed as offering legal or actuarial advice. It is intended to help you maintain proper records and perform other duties that will enable your Plan providers to complete and file the various forms referred to in this guide on a timely basis. Please feel free to call us with any questions you may have. We are here to help!

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CAPITAL'S CUSTOMER SERVICE TEAM

We provide dedicated specialists to handle each facet of your retirement savings plan and its operation. While you can always contact your Client Account Manager directly if you are unsure whom to call, you may also choose to call upon these team members for their areas of expertise:

Client Relationship Team:

- Designs your plan to meet your company's objectives
- Works with you on an ongoing basis to ensure that your plan continues to meet your company's needs
- Markets Capital's services to new clients

Plan Conversion and Implementation Team:

- Works with you to obtain all of the information necessary to set up your plan
- Establishes your plan documents
- Oversees the transfer of any assets from a prior plan into your new plan, including the performance of any necessary due diligence on your prior plan
- Transitions your plan to a Plan Administrator when plan establishment is complete

Plan Administration Team:

- Handles daily administration of your plan
- Interprets and explains your plan document
- Calculates and processes year-end contributions
- Verifies and reviews census information, eligibility, and contributions to your plan
- Conducts compliance tests and effects any necessary remedial action
- Prepares government filings
- Handles amendments to your plan
- Reviews Rollovers, Qualified Domestic Relations Orders, Required Minimum Distributions, and other Distributions from your plan

Payroll Team:

- Monitors payroll downloads and deposits and processes your payrolls in our recordkeeping system
- Processes necessary trades according to participants' current investment election
- Processes loan payments for any existing participant loans

Participant Service Team:

- Processes participant requested distributions and loans
- Answers participant questions regarding their plan and account
- Processes investment election forms
- Identifies newly eligible participants on a quarterly basis for Plan Sponsor review
- Produces enrollment books per the quarterly eligibility list
- Arranges enrollment meetings and web seminars

KEY DATES TO REMEMBER

Calendar-Year Plans	Non Calendar-Year Plans	Plan Event
January 10	10 days after Plan Year End	Deadline for submission of all prior plan year payroll files to Capital Deadline for submission of Company Information Annual Update for all companies that have adopted plan to Capital Deadline for submission of prior plan year file that includes final payroll and census for entire year to Capital (if applicable)
January 31	January 31	Form 1099-R mailing deadline
March 15	2 ½ months after Plan Year End	401(k) Plan Testing Deadline – refunds completed after this date are subject to a 10% tax penalty. Corporate contribution deposit deadline to deduct contribution in prior year (unless corporate tax extension received).
April 15		Sole Proprietor, Partnership, and LLC contributions deposit deadline to deduct contribution in prior year.
July 31	7 months after Plan Year End	Filing deadline for Form 5500 (if an extension was not received)
September 15	8 ½ months after Plan Year End	Corporate contribution deposit deadline if corporate tax extension filed
September 30	9 months after Plan Year end	Distribution deadline of Summary Annual Report to all Plan Participants (unless extension for Form 5500 was received)
October 15	9 ½ months after Plan Year End	Filing deadline for Form 5500 if extension filed
November 30	30 months prior to Plan Year End	Deadline to deliver Safe Harbor Notices to Plan Participants for Plans intending to adopt safe harbor provisions
December 15	11 ½ months after Plan Year End	Distribution deadline of Summary Annual Report to all Plan Participants if extension received for Form 5500 reporting
December 31	12 months after Plan Year End	Final deadline for all contributions and refunds for prior plan year

YOUR RESPONSIBILITIES AS PLAN SPONSOR

At Capital Retirement Plan Services, the good standing of your Plan is our top priority. As the sponsor of a qualified retirement plan, you have several responsibilities that you must perform. We are here to help you understand and fulfill those responsibilities so that compliance with Federal standards is easy and automatic for you. To get started, here is a short-hand list of key plan sponsor responsibilities.

1. Administer the Plan according to the terms of the Plan Document and all applicable State and Federal rules and regulations.
2. Maintain a fidelity bond within Department of Labor regulatory guidelines. The minimum bond required is the greater of \$1,000 or 10% of the assets of the Plan.
3. Designate a Plan Trustee and Administrator.
4. Establish an Investment Policy Committee to review your Plan's fund offerings.
5. Make your Plan available to all eligible employees.
6. Communicate required Plan information to all Plan Participants.
 - Summary Plan Description, which describes the benefits offered under the Plan in "plain English", must be given to each Participant by the later of 90 days after the Employee becomes a Participant or 120 days after the later of the Plan's effective date or adoption date.
 - Summary Annual Report, which describes in "plain English" a summary of the information provided in the Plan's annual report (Form 5500), must be delivered to each Participant by the 9th month following the end of the Plan Year. The deadline is extended if the Employer has received an extension for filing Form 5500.
 - Safe Harbor Notice (applicable only to those Plans that have adopted Safe Harbor provisions), which describes the Participant's rights and obligations under the safe harbor 401(k) or 403(b) Plan, must be delivered to all Participants at least 30 days, and not more than 90 days, before the beginning of the Plan Year.
 - Distribution Package, which explains the Participant's right to receive a distribution or maintain their funds within the Plan, must be provided to each terminated Participant within 90 days of termination.
 - Loan Package, including Application for Participant Loan, Statement of Plan Loan Policy, Promissory Note, and Irrevocable Pledge and Assignment, must be provided to each Participant requesting a loan from the Plan.
7. Deposit employee and employer contributions in a timely fashion in accordance with Department of Labor standards, i.e., on the "earliest date that they can reasonably be segregated from the employer's general assets."
8. File all government forms within specified deadlines.
9. Maintain all Plan records including (but not limited to) Plan Document, Participant Investment Election Forms, Distribution and Loan Forms, and Beneficiary Designation Forms.
10. Approve only those distributions and loans from your plan that are allowed by Federal law and by your plan document.
11. Provide year-end information in a timely fashion so that your compliance testing and government filing can be completed within Federal deadlines.
12. Report immediately any ownership changes or corporate structural changes as such changes can significantly impact your retirement plan. Seemingly insignificant corporate changes or acquisitions by a company owner (or sometimes a relative of an owner!) can significantly impact the status of your plan and may require plan modifications or corrective

measures. Be sure to keep your relationship manager in the loop **prior to any reorganization** so that we can alert you if any modifications to your Plan are necessary.

13. Provide accurate and complete census and contribution data with each payroll.

Remember:

- Include birth dates, hire dates, termination dates, and re-hire dates on all of your employees (not just for those that are deferring)
- Report all compensation including bonuses and commissions for each employee
- Report hours for all employees even if their pay is not based on hours (eligibility and vesting often depend on meeting a minimum number of hours per year)
- Take deferrals on all compensation including bonuses and commissions unless your plan document specifically excludes a type of compensation

YOUR PAYROLL AND DEPOSITS

We here at Capital know that making sure that your payroll contributions are credited to your employees' accounts accurately and in a timely fashion is a top priority for you. As a result, we dedicate a team exclusively to payroll processing. In most instances, they are able to process your payroll and allocate your payroll deposit on the same day that we are notified that a deposit is received. Read on to find out how to submit your payroll and timely deposit your payroll contributions.

Remember:

In order to process your payroll, our payroll team needs a **complete** payroll file and a **matching** deposit. If a deposit is received, but no payroll has been delivered, our team does not know how to allocate the deposited funds to your employees. Likewise, if the deposit amount does not match the total contribution indicated in your payroll file, our team cannot process your payroll since they do not have consistent instructions as to who gets what.

Payroll File Format:

Your Plan runs on information! Hire dates affect who is eligible for the Plan and can affect a participant's vesting in employer contributions. Birth dates determine when a participant can access their retirement funds. Termination dates affect whether a participant is included in compliance testing and determine if a participant is eligible to receive a distribution from or make a contribution to the plan. Compensation affects compliance testing and can affect how much an employee should receive of any employer contributions. The information you provide in your payroll file affects every aspect of your plan.

The first step is creating a data file in a standardized format that contains the required data. Depending on your payroll system, you may find it easier to generate one file that contains all the information required or you may find it easier to generate two files – one that contains your payroll data and one that contains census information about your employees. Either way, our Plan Implementation Team will work with you so that producing a data file that contains the required information is easy for you.

What information needs to be contained in your data file(s)? In the table below, we indicate the required data fields and the format each field should follow. Each row in your data file will correspond with a single employee's records and each column will represent one of the required data fields.

Remember:

Be sure to include **ALL** of your employees in your payroll file, whether or not they have enrolled in the plan

FIELD	FORMAT	EXAMPLE
*Payroll Date	mm/dd/yyyy	12/31/2005
*Social Security Number	Numeric (no dashes)	111223333
*Last Name	Character	Brown
*First Name	Character	Douglas
Middle Name/Initial	Character	M.
Gender	M, F (Capitals Only)	M
Marital Status	M, S, W, D (Capitals Only)	M
*Street Address1	Character	111 High Road
*Street Address2	Character	Apt. 7

FIELD	FORMAT	EXAMPLE
*City	Character	Biloxi
*State	Character (2)	MS
*Postal Code	Numeric (no dashes)	23222
Phone Number	Numeric (10, no dashes)	4442221111
Email Address	Character	dbrown@email.com
*Date of Birth	mm/dd/yyyy	01/20/1955
*Date of Hire	mm/dd/yyyy	04/04/1999
*Status Code	A = Active employee T = Terminated R = Rehired N = Died P = Disabled S = Early retirement X = Normal retirement W = Postponed retirement L = Approved leave of absence I = Maternity/Paternity leave	T
*Status Date	mm/dd/yyyy (Date of Status Event, Blank if Status Code = A)	12/15/2005
EE Type Code	H = Hourly S = Salaried C = Commission Only U = Union N = Non-Resident Alien D = Part-Time (working < min hours) O = Other	S
EE SubType Code	F = Full-Time P = Part-Time B = Full/Part-Time	F
EE Type Date	mm/dd/yyyy (Date associated with current employment type; date of hire or date of changed status)	06/04/2006
Division	Text Field defined by plan sponsor	Human Resources
*Hours of Service	Numeric (2 decimal places)	80.00
*Salary (Pay Period Only)	Numeric (2 decimal places, no \$ or commas)	480.00
*Bonus (Pay Period Only)	Numeric (2 decimal places, no \$ or commas)	50.00
*Commissions (Pay Period Only)	Numeric (2 decimal places, no \$ or commas)	0.00
*Overtime	Numeric (2 decimal places, no \$ or commas)	0.00
*Employee Regular Deferrals	Numeric (2 decimal places, no \$ or commas)	48.00
*Employee Roth Deferrals	Numeric (2 decimal places, no \$ or commas)	20.00

FIELD	FORMAT	EXAMPLE
*Employer Matching Contributions	Numeric (2 decimal places, no \$ or commas)	24.00
*Employer Elective Contributions	Numeric (2 decimal places, no \$ or commas)	0.00
*Employer Non-elective Contributions	Numeric (2 decimal places, no \$ or commas)	0.00
*Loan Payment 1	Numeric (2 decimal places, no \$ or commas)	10.00
*Loan Payment 2	Numeric (2 decimal places, no \$ or commas)	0.00

* Required (if applicable)

Please note that failure to provide this information in a standardized, agreed-upon format can result in delays in processing your payroll and in the possible imposition of additional fees. If your payroll file is not complete or is not in the specified format, you will be notified of the situation as quickly as possible. Your payroll file cannot be processed and contributions bought until Capital receives a complete payroll file in the specified format. Capital must be notified in advance of any changes to your file format. Failure to provide sufficient notice can result in delays in processing your payroll files.

Uploading Your Payroll File:

Uploading your data file to Capital is easy! On our secure website, you can upload your data file and receive instant confirmation that your file has been received and instant notification if there are any problems with the information in your file.

How To:

1. Go to www.capitalretirementplans.com, login as a plan sponsor, and click on "Upload File".
2. Browse to find your current data file. Your file can be in xls, txt, or csv format. Be sure to include the payroll date in the name of your file (i.e. ABCCompany060315.xls)
3. Click on "OK" when prompted.
4. A notification of successful upload will appear for your records. Click on "Click here to send upload notification" to send an email alerting our staff that your file has been uploaded to our secure website.

Making Timely Deposits:

The Rules:

The Federal government requires that deposits be made as soon as administratively feasible, but in no event later than the 15th business day of the month following the month in which participant contributions are withheld or received by the employer.

While Plan Sponsors have historically taken comfort in the flexibility seemingly provided by the 15th business day of the following month criteria, recent Department of Labor communications suggest that the DOL is taking seriously what is actually administratively feasible for an employer. If you are capable of segregating and depositing plan assets in 5 business days, for instance, the DOL expects you to do so. What does this mean for you as a plan sponsor? Don't be late! Avoid participant complaints and the possibility of Federal sanctions and penalties, by making timely deposits consistent with your payroll schedule. You should expect the DOL to take the position that you are able to segregate and deposit plan assets on the same schedule that you are able segregate and deposit withholdings for FICA and Federal and state income tax.

Once we receive your payroll file and confirmation of a matching deposit, we take over! We import your data file and allocate the deposited funds to each participant's account according to the data in your payroll file and credit any loan repayments to the appropriate participant's outstanding loan balance. The final step is to execute trade orders to invest each participant's funds according to their current investment election.

For deposit instructions for your Plan's custodian, login to our Plan Sponsor website and download your custodian's deposit instructions.

ENROLLING PARTICIPANTS

All eligible participants must be given an opportunity to participate in your Plan. An employee is eligible once s/he has met the eligibility requirements specified in your Plan Document. Once eligible, s/he can enter the Plan on the next Plan entry date. Here's how the process works!

How To:

1. Capital identifies the Plan's soon-to-be eligible employees from the payroll data provided by the Plan Sponsor, and provides the Plan Sponsor an eligibility report identifying each newly eligible participant each quarter (or as appropriate if Plan entry is less frequent than quarterly).

Heads Up: If your Plan allows immediate eligibility and entrance, the Plan Sponsor must provide their new employees (or re-hired employees who previously met eligibility requirements) with enrollment materials upon hiring.

2. Capital provides enrollment materials to the Plan Sponsor for each newly eligible employee. Direct mailing to each Participant at their address of record is also available.

3. Plan Sponsor distributes enrollment materials to each newly eligible employee.

The Rule: The Department of Labor requires that the Summary Plan Description be distributed to employees within 90 days of their eligibility to participate in the Plan.

Good Advice: Maintain a record of which employees were delivered enrollment materials and when as evidence that the Plan was offered to all eligible participants.

4. Participants enroll online at www.myplanconnection.com. On the website, they can specify their contribution percentage, beneficiary designation, and investment elections. Alternatively, participants can enroll using the Enrollment and Investment Election Form and returning it to their Plan Sponsor.

5. Plan Sponsor effects the Participant's salary deferral election in its payroll system.

6. If the participant has not designated his investment elections online, Capital inputs Participants' investment election allocations. All future contributions are invested according to this election until the participant makes a new election.

7. Plan Sponsor sends the payroll file including the contributions of the newly eligible employees. Capital processes the payroll, investing the contributions according to the investment elections on record.

Heads Up: If Capital receives a contribution for a Participant, but no investment election has been made or delivered to Capital, the contribution is invested in the default fund selected by the Plan Sponsor.

8. A Participant may cease or change his/her payroll deductions at times specified in your Plan Document by going online to www.myplanconnection.com or by completing a new Enrollment Salary and Deferral Agreement.

PLAN COMPLIANCE TESTING & GOVERNMENT FILINGS

As your third party administrator, we'll conduct the necessary tests each year to evaluate your plan's compliance with Federal regulations. We'll work with you to design your plan so that passing these tests is more likely and, in some cases, guaranteed. If your plan does fail any of the compliance tests, we'll walk you through the necessary remedial actions to get your plan back on course. While failing any test is typically not a problem, failing to take the necessary corrective measures within the prescribed time frame can jeopardize the qualified status of your plan.

The first step towards compliance peace of mind is to understand the various tests and standards to which your plan is held.

Important Definitions:

1. **Highly Compensated Employee (HCE):** An individual can be categorized as an HCE by reasons of ownership or by compensation.
 - **Ownership Test:** Any employee who owns, directly or indirectly, more than 5% of the business regardless of compensation. An employee can indirectly own more than 5% of outstanding company stock through attribution if the stock is directly held by a spouse, child, grandchild, or parent.
 - **Compensation Test:** Any employee who earns more than a prescribed dollar amount in the preceding plan year. The HCE compensation limit in 2008 is if the employee earned more than \$105,000 in 2007. These limits are adjusted annually.
2. **Non-Highly Compensated Employee (NHCE):** Any employee that is not a HCE.
3. **Key Employee:** An individual can be categorized as a Key Employee by reasons of ownership, status, and compensation.
 - **5% Owner:** All employees who own, directly or indirectly, more than 5% of the company regardless of compensation.
 - **1% Owner:** All employees who own, directly or indirectly, more than 1% of the company and whose annual compensation exceeds \$150,000.
 - **Officer:** An officer of the company whose annual compensation for the current year exceeds \$150,000 in 2008. These limits are adjusted annually.
4. **Non-Key Employee:** Any employee that is not a key employee.

The Tests:

Unfortunately, there is no way to reduce the entirety of the applicable Internal Revenue Code provisions to a few simple paragraphs! So please note that these descriptions are intended to provide a brief summary of each test and do not cover all possible conditions and permutations applicable to these tests. In general, these tests limit the maximum benefit participants can receive from the plan and ensure that NHCEs benefit "enough" from your Plan relative to the benefit received by your HCEs and Key employees.

1. **Annual Additions (415) Limits:** The annual additions limit determines the maximum amount that can be "added" or allocated to a **participant** each limitation period (typically the calendar year or Plan Year). The annual addition limit does not include investment earnings, loan repayments, catch-up contributions, and rollover contributions. The annual additions limit for a participant is the lesser of 100% of a Participant's compensation (W-2 wages), or a set dollar limit defined each year. For the 2008 plan year, this dollar limit is \$46,000. This dollar limit is pro-rated if the Plan is subject to a short limitation period.
2. **402(g) Annual Deferral Limit Tests:** This test evaluates whether a **participant** has exceeded the annual deferral limit set by the Federal government. Since the limit is an individual limit, not a plan limit, individual deferrals into multiple plans must

be aggregated. The annual deferral limit typically changes year to year and has recently increased in \$1,000 increments. For calendar year 2007, this dollar limit is \$15,500. Excess deferrals must be returned to the participant.

3. Top-Heavy Test: A plan is top-heavy if the account balances for Key Employees exceed 60% of the total account balances of all participants on the last day of the preceding plan year. Plans that are determined to be top-heavy must provide minimum contributions to all non-key employees who are participants equal to the lesser of 3% of compensation for the entire plan year, or the contribution percentage of the Key Employee who receives the largest contribution as a percent of compensation. Safe harbor plans meeting certain conditions are granted non-top-heavy status regardless of the Key Employees' total account balance relative to the total plan account balance.
4. Minimum Coverage Requirements - 410(b): The minimum coverage rules require that qualified plans establish eligibility and participation criteria such that a nondiscriminatory cross-section of HCEs and NHCEs receive benefits from the plan. An employee is considered to be "benefiting" if s/he is eligible to make or receive contributions (even if s/he does not take advantage of this opportunity). Excluded employees do not benefit. Each type of contribution (salary deferrals, employer matching contributions, and employer non-elective contributions) into the plan must meet coverage requirements. To pass coverage, a plan must satisfy either the ratio percentage test or the average benefits test. Under the ratio percentage test, the percentage of NHCEs who benefit under the plan must be at least 70% of the percentage of HCEs who benefit under the plan. If a plan fails the ratio percentage test, the average benefits test, which considers additional factors including the percentage of employees that are NHCEs and the average benefits provided under the plan, may be used. If a plan fails coverage requirements, the plan must extend benefits to excluded employees until the tests are passed.
5. General Nondiscrimination Requirement – 401(a)(4): The general nondiscrimination test requires that the allocation of employer non-elective or profit sharing contributions benefit NHCEs "enough" relative to the benefit realized by HCEs. Detailed regulations spell out the calculations required for satisfying this provision. Design-based safe harbor contributions can eliminate the need for general nondiscrimination testing. If a safe harbor allocation formula is not utilized, we will design and calculate your employer contribution each year to maximize your contribution objectives subject to satisfaction of the general nondiscrimination requirements.
6. Contribution Tests - ADP/ACP Tests: Defined contribution plans are also subject to the Average Deferral Percentage (ADP) and the Average Contribution Percentage (ACP) tests. These tests measure the actual deferral ratio (ADR) and the actual contribution ratio (ACR) of the HCEs relative to the deferral and contribution ratios of the NHCEs, respectively. If the HCE's average percentage is too high relative to the average percentage of the NHCEs, then corrective measures including a refund from the HCEs contributions or a qualified non-elective contribution to the NHCEs are required. For example, if the average deferral ratio for the NHCEs is 4%, then corrective measures are required if the HCEs average deferral ratio exceeds 6%. Design-based safe harbor contributions can eliminate the need for plans to meet these testing requirements.
7. Maximum Deduction Limit: The government imposes a deduction limit on employer contributions. Currently, employer contributions to defined contribution plans are deductible up to a maximum amount equal to 25% of the employer's total payroll.
8. Compensation Ratio Testing – 414(s): This test applies if the Plan's definition of compensation is different from W-2 Compensation and evaluates whether the exclusion of a type of compensation adversely impacts a certain sector of employees.

A Narrow Window:

We have retirement plan specialists on staff with the specialized training and experience to perform these tests and evaluate your plan's compliance with Federal law. However, we cannot do it without your help! In order for us to do our job, we will need important information from you at certain critical times during the year. We will make the process as easy as possible for you! **However, if you do not provide the necessary information by the deadlines specified, we will not be able to guarantee that the necessary testing and filing will be completed by the requisite deadlines.** When this happens, there are fines imposed by the Federal government and additional service fees payable to Capital. Help us help you!

How To:

1. In the last month of the Plan Year (December for Calendar-Year Plans), Capital sends a Year-End Package to the Plan Sponsor. The Year-End Package includes the Annual Company Information Form and the Annual Census Request Form.
2. **Deadline:** The Plan Sponsor returns the Company Information Form as soon as possible but no later than 30 days after receipt of the Year-End Package (January 10 for Calendar-Year Plans).
3. **Deadline:** The Plan Sponsor verifies the accuracy of the year-end census/payroll and signs the Certification Memo that verifies that the data that has been provided to Capital for the Plan Year is complete and accurate as soon as possible but no later than 30 days after receipt of the Year-End Package (January 10 for Calendar-Year Plans).
4. How does the Plan Sponsor "verify the data"?
 - The verification process cannot begin until all payrolls for the Plan Year have been submitted and processed. Since time is of the essence, it is critical that calendar-year plans make sure that their final December payrolls are processed during the first week of January.
 - Once the Plan's final payroll has been processed, Capital provides the Plan Sponsor with a Annual Census Report summarizing the census information and contribution data for each employee. The Plan Sponsor carefully reviews this data and compares it to their year-end records. Any necessary changes are immediately forwarded to Capital.
 - Alternatively, Plan Sponsors may send Capital a year-end census and payroll file (excel, text, or csv format) that summarizes the annual census information and contribution data for each employee. Capital compares this file with the data in its record-keeping system and provides the Plan Sponsor a discrepancy report detailing any differences between the data in its system and the data in the Plan Sponsor's year-end file. Plan Sponsor reviews the discrepancies and immediately instructs Capital as to the data Capital should use for testing.
5. Capital manually updates its record-keeping system to reflect any changes identified in the census verification. If the manual corrections are extensive and are due to the Plan Sponsor's failure to provide accurate and complete data through normal payroll processing, additional fees will be charged to the Plan Sponsor.
6. Capital reconciles Plan's trust account balance to Capital's record-keeping system.
7. Once the Plan's records are accurate and have been reconciled, Capital performs the necessary compliance tests (see above).
8. Capital informs Plan Sponsor of the results of the testing. If the Plan fails any of the tests, Capital informs Plan Sponsor of the corrective actions that are available and effects the correction at the Plan Sponsor's direction.

Heads Up: Additional fees may apply for corrective measures. If refunds are necessary and are not completed by March 15th, the Plan Sponsor will be required to file Form 5330 and will incur an excise tax of 10% on the refund amount.

The Rule: Refunds completed prior to March 15th are taxable in the prior calendar year. Refunds completed after March 15th are taxable in the current calendar year.

Good Advice: If your plan tends to fail the nondiscrimination tests each year, be sure to advise your HCEs that may receive refunds to delay filing their personal income tax until after March 15th. Also, be aware that although the refund is taxable in the prior calendar year, the recipient of the refund will not receive a 1099-R for that distribution until January of the following calendar year.

9. If a Plan Sponsor desires to make a year-end profit sharing or matching contribution, Capital provides a detailed contribution calculation for plan sponsor review.
The Rule: To deduct your year-end contribution in the prior year, the contribution must be deposited by your corporate tax-filing deadline. If your company has filed a corporate tax extension, you may delay making your contribution until the revised deadline. If you make your contribution after the corporate tax-filing deadline, you must either amend your prior year tax filing or deduct the contribution during the current tax year.
10. Once testing is complete and all year-end contributions have been deposited, Capital prepares a signature-ready Form 5500 and Schedules as needed for Plan Sponsor review. Form 5500 is the Plan Sponsor's summary statement of the Plan's yearly activity and status to the Federal government. The Federal deadline for Form 5500 is July 31 (for calendar-year plans). If necessary, Capital will prepare a signature-ready Form 5558 to extend the Form 5500 deadline to Oct. 15.
11. Capital prepares an Annual Report summarizing plan accounts and activity for the Plan Year.
12. Plan Sponsor reviews all reports for accuracy and completeness.
13. Plan Sponsor distributes to Plan Participants a copy of the Summary Annual Report within 9 months from the end of the Plan Year (or 11 ½ months from the end of the Plan Year if an extension for Form 5500 was obtained).

PARTICIPANT DISTRIBUTIONS

Federal laws are designed to discourage and, in some cases, prevent participants from withdrawing their money from their retirement savings plan prior to retirement. As a plan sponsor of a retirement savings plan, it is important to understand these limitations so that you can help your employees make good decisions. What are some of the rules governing distributions from your plan? Find out below!

Retirement Distributions:

Your retirement savings plan is intended to help your employees save for their retirement. As a result, when your employees do retire, their retirement savings can go with them. They can choose to rollover their funds into another qualified plan or IRA, or they can receive a cash distribution. If they take a cash distribution, the government requires 20% of the distribution to be withheld for Federal tax purposes. Depending on the Participant's tax bracket, this mandatory withholding may or may not fully satisfy the Participant's tax obligation on this distribution. At retirement, an employee becomes fully vested in any employer contributions. Your plan will recognize a specific age for retirement. Most plans recognize 65 as the normal retirement age, but your plan may also recognize an earlier retirement age.

In-Service Distributions:

Since many employees are working past the normal retirement age, many plans also allow in-service distributions for their employees that are still working but are more than 59½ years old. Please check with one of our plan administration specialists to review your Plan's offerings. If these distributions are rolled over into an IRA, the employee can continue to defer paying taxes on these funds. If they receive a cash distribution, the mandatory 20% withholding applies, which may or may not fully satisfy the Participant's tax obligation. Since the participant is over 59½ years old, in-service distributions are not subject to penalty taxes.

Required Minimum Distributions:

Once a participant reaches 70½, they are required to take a minimum distribution from their qualified plan each year. In the year in which the participant turns 70½, the required distribution must occur by April 1 of the following year. In subsequent years, the required distribution must occur by December 31st of that year. If a participant is older than 70½, but is still working for your company and is not a company owner, s/he may delay these required distributions until they terminate.

Termination Distributions:

If a participant leaves your employment, s/he is also eligible to receive a distribution from your plan. S/he may rollover her vested account balance into a new employer's qualified plan or an IRA and continue to defer paying taxes on these funds. If s/he choose to take a cash distribution, the distribution is subject to a mandatory 20% withholding and also may be subject to a 10% penalty tax if the participant is less than 59½ years old. If the participant is not fully vested in any employer contributions, s/he forfeits the unvested portion of the account balance. If the Participant has an outstanding loan, the outstanding loan amount is defaulted and the participant will receive a 1099-R on the outstanding loan balance. Tax penalties may apply. To avoid default, a participant may pay off his outstanding loan balance prior to distribution of his/her account balance.

Force-Out Distributions:

Many Plan Documents provide a force-out provision that allows a Plan Sponsor to require a terminated participant with an account balance of less than some threshold (typically \$1,000) to distribute their funds from the Plan. Requiring such distributions reduces the Plan Sponsor's administrative burden by eliminating the need to maintain records and accurate addresses for terminated employees and ensures that any unvested portion of the Participant's account balance is forfeited in a timely manner. Participants are notified of the impending force-out and are given 30 days to elect whether to rollover their vested account balance or receive a cash distribution. If they fail to make an affirmative election, a cash distribution is processed and a check sent to the address of record. Cash distributions are subject to the mandatory 20% withholding and may be subject to a 10% tax penalty if the participant is less than 59 ½ years old.

Disability Distributions:

If an employee becomes permanently disabled and is unable to continue gainful employment, s/he is eligible for a disability distribution of her account balance. Your plan document will specify the standards to determine permanent disability. Participants qualified for a disability distribution may become fully vested in any portion of employer contributions that are not yet fully vested prior to distribution depending on your plan document. A disability distribution is subject to the mandatory 20% withholding, but is not subject to any penalty taxes.

Death Distributions:

If an employee dies, then their beneficiary is entitled to a distribution of the participant's account balance. An employee becomes fully vested in any employer contributions at the time of death. If the beneficiary is a spouse, s/he may choose to rollover the participant's vested account balance or receive a cash distribution. Other beneficiaries may only elect to receive a cash distribution (rollovers will be allowed beginning in 2007). Cash distributions are subject to the mandatory 20% withholding; penalty taxes do not apply. If a participant is married or becomes married and has designated a beneficiary other than their spouse, then the spouse retains their full rights as beneficiary unless the spouse's notarized signature foregoing this right is on file with the plan sponsor.

Hardship Distributions:

Your plan may also allow distributions for reasons of hardship. The Federal government requires that these distributions be limited to instances where the employee has an immediate and heavy financial need. Prior to a hardship distribution, an employee must exhaust all other distributions or nontaxable loans available under all plans maintained by their employer. A participant may not defer into the plan for 6 months after the hardship distribution. The safe harbor hardship reasons approved by the Federal government of instances of immediate and heavy financial need include:

- Payment of deductible medical expenses by the employee or dependent
- Purchase of a primary residence
- Payment of tuition, room and board, and related educational expenses by the employee or dependents
- To prevent eviction from principal residence or foreclosure on the mortgage of that residence
- Payment of funeral expenses for parent, spouse, or dependent
- Payment of expenses for casualty loss to my principal residence

How To:

1. Participants download the necessary distribution forms online at www.myplanconnection.com. The forms specify all required documentation including a death certificate for death distributions, proof of disability for disability distributions, and proof of immediate and heavy financial need for hardship distributions.
2. Participants send completed distribution forms and other required documentation to their Plan Sponsor for approval.
3. Capital processes approved distribution requests.

Good News: Terminated participants can request a distribution online to speed up their distribution process.

PARTICIPANT LOANS

If your plan allows participant loans, then your employees may take up to the lesser of 50% of their vested account balance or \$50,000 as a tax-deferred loan against their retirement savings. Minimum amounts may apply. Loans for the purchase of a primary residence may be for a maximum duration of 15 years. Loans for all other reasons may not exceed 5 years. Your plan is required to charge a reasonable interest rate for the loan as defined in the Plan's loan policy, but this interest is paid back into the participant's account. Loan re-payments are made through payroll deduction and are made on an after-tax basis. Loans may be pre-paid with no penalties.

The government allows participants to borrow the money tax-free with the expectation that the money will be paid back into the Plan within the specified time period. If the funds are not paid back in a timely fashion (as specified by your Plan Document), the loan is defaulted and the participant must pay taxes on the outstanding loan balance and may also incur additional tax penalties. Terminated employees that can no longer make regular payments on their loan can avoid default and the adverse tax consequences by making a single lump-sum payment equal to their current payoff amount prior to the loan's default.

How To:

1. Participants go to www.myplanconnection.com and determine how much they would like to borrow and for how long using Capital's model loan feature.
4. Participants submit their loan request online at www.myplanconnection.com. If the participant is requesting a loan duration of more than 5 years, the Participant must provide proof of home purchase.
5. Participants may also submit a paper loan application rather than utilizing the online loan process. Loan applications are available from Capital and at www.myplanconnection.com.
6. Capital processes loan request and delivers to participant her amortization schedule and Regulation Z disclosure.
7. Capital notifies Plan Sponsor of the loan and provides an amortization schedule.
8. Plan Sponsor establishes the loan re-payments in the company's payroll system according to the amortization schedule. Loan re-payments are made on an after-tax basis.
9. Each pay period, the Plan Sponsor sends the loan re-payment amount and details to Capital with the company's payroll deposit and file.
10. If a participant wants to pay her loan off early, the participant or plan sponsor must contact Capital to receive an accurate loan payoff amount and deposit instructions.
11. Capital monitors delinquent loans and notifies Plan Sponsor of any loans in default. Upon approval by the Plan Sponsor, Capital takes the necessary steps to default/deem distribute the delinquent loans and delivers Form 1099-R to the participant for the outstanding loan balance.

PARTICIPANTS' INCOMING ROLLOVERS

Some Participants may want to rollover funds into the Plan's retirement plan from another qualified source (a prior employer's retirement plan or an individual retirement account). This is a significant benefit for Plan Participants, but it is important that only qualified money is deposited in the Plan.

How To:

1. Participant go to www.myplanconnection.com to download the Rollover Information Form
2. The Participant submits a copy of a statement from his/her prior account to Capital along with a copy of the Rollover Request Form.
3. Capital reviews the account statement and determines if the funds are qualified for rollover.
4. Upon Plan Sponsor approval of the rollover, the Participant requests distribution/surrender forms from his/her prior account holder and completes the forms according to their specifications. On the distribution paperwork, the Participant should specify the Plan as the receiving account and include the following information:
 - Method of Distribution: Rollover
 - Type of Receiving Account: Qualified Retirement Savings Plan
 - Check Payable to: Plan Name, Trustee, FBO: Participant Name
 - Mailing Address for Check: Custodian Address
 - Tax Withholding Amount: None
5. Once complete, the Participant submits the completed forms to his/her prior employer or the custodian of his/her IRA account for processing.
6. The prior account holder processes the request and sends the rollover check to the Plan's custodian.
7. Capital receives notice of the deposit, credits the Participant's account and invests the funds according to the Participant's current investment election.

PARTICIPANT CHANGES

If a participant wants to make some change to his retirement plan, the process is easy.

Salary Deferral Changes:

Participants can change their contribution percentage online at www.myplanconnection.com. Plan sponsors are notified of the change via email and must then make the necessary changes to their payroll system. Participants may also make their changes by submitting an Employee Deferral Election Change Form to their Plan Sponsor for processing. Your plan may restrict the frequency with which contribution percentages may change. Please check with your plan administration specialist to verify the rules of your plan.

Beneficiary Changes:

Participants can change their beneficiary designation online at www.myplanconnection.com or they may submit a Beneficiary Change Form to their Plan Sponsor. The Plan Sponsor is solely responsible for maintaining this information, but should forward a copy to Capital to ease administration of RMDs, death distributions, etc.

The Rules:

Federal regulations provide that spouses have special status as beneficiaries of qualified retirement plans. As a result, if a Participant does not name a beneficiary, the spouse is deemed to be the beneficiary. If the Participant has not named a beneficiary and is not married at the time of death, the benefits will be paid to the Participant's estate. If a Participant is not married at the time of the beneficiary designation but later becomes married, the prior beneficiary designation becomes null and void and the spouse is deemed to be the beneficiary unless a second beneficiary designation form is completed subsequent to the marriage. If a Participant is married and designates a beneficiary other than his/her spouse as a Primary Beneficiary, spousal consent is required and the spouse's signature must be notarized.

Investment Election Changes:

Participants may make changes to their current holdings, their future deposits, or both online at www.myplanconnection.com. Participants may also complete an Enrollment and Investment Election Form to change their investment election or specify an allocation for current holdings. On the web, the following transactions are available:

1. **Investment Elections:** This transaction allows the Participant to specify how all *future* deposits will be invested
2. **Rebalance Portfolio:** This transaction rebalances *current* holdings so that the allocation of current holdings corresponds to the Participant's current investment election
3. **Transfer Funds:** This transaction allows the Participant to transfer current holdings out of one fund into one or more other funds
4. **Conform to Target:** This transaction allows the Participant to specify an investment election for current holdings different than the investment election that applies to future deposits

Address Changes:

Participants may update their personal information on the web at www.myplanconnection.com. If the participant is an active employee, however, and the Plan Sponsor's address provided in the payroll files is different, the participant's changes on the web will be over-written when the next payroll file is processed. Active participants should be encouraged to update their address information with the plan sponsor to ensure accurate records.

WEB RESOURCES

If you or a Participant would like instant and up-to-date information on your Plan, visit Capital's website at www.capitalretirementplans.com. Each Plan Sponsor is provided a plan sponsor userid and password that gives them preferential access to all Plan information. Each Participant is provided a participant userid and password that gives them information on their account. Visit our website and see all the information you have at your fingertips!

Plan Sponsor:

- Plan account information including daily account balance statements as of the end of the prior day
- Summary of status for all participants in Plan
- Participant account information including daily account balance statements as of the end of the prior day
- View all transactions that have been processed on your plan
- On-demand report on performance of available investment options and models
- On-demand report on Source and Investment summary
- Hyperlinks to available investment option prospectuses
- Hyperlinks to Morningside fund information on available investment options
- Educational material for retirement planning
- Ability to upload files to Capital using a secure website
- Ability to approve termination distributions online
- All distribution, hardship, loan, investment election, beneficiary change, deferral change, rollover information forms available to print or download in pdf format
- Multiple Plan level reports

Participants:

- Participant account information including daily account balance statements as of the end of the prior day
- View all transactions that have been processed on their account
- Hyperlinks to available investment option prospectuses
- Hyperlinks to Morningside fund information on available investment options
- Educational material for retirement planning
- Ability to change investment elections for future deposits
- Ability to move current holdings between different investment options
- View loan status and amortization schedule for existing loans
- Model loans to determine payroll payment for different loan amounts and duration
- Submit paperless loan distribution requests
- Submit termination distribution requests
- All distribution, hardship, loan, investment election, beneficiary change, deferral change, rollover information forms available to print or download in pdf format
- Quarterly report on performance of available investment options and models

Notes:

Notes:



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