BENICO LIMITED

Glossary of Qualified Retirement Plan Terms

401(k) Plan: A qualified profit sharing or stock bonus plan under which plan participants have an option to put money into the plan or receive the same amount as taxable cash compensation. Amounts contributed to the plan are not taxable to the participants until withdrawn. Generally funded entirely or in part through salary reductions elected by employees. Salary reductions are subject to an annual limit.

403(b) Plan: A tax-deferred annuity retirement plan available to employees of public schools and certain nonprofit organizations.

A

Accrued Benefits: Retirement benefits earned to date by an employee, which will be expressed in a 401(k) plan in terms of the amount in the employee's account.

Actual Deferral Percentage (ADP): An anti-discrimination test that compares the amount deferred by highly compensated employees to the deferrals of non-highly compensated employees.

Asset Allocation: An employee's division of money between different types of investment choices. An example of asset allocation would be 70 percent stocks and 30 percent bonds.

Alternate Payee: A person other than a plan participant (such as a spouse, former spouse, child, etc.) who, under a domestic relations order (see qualified domestic relations order), has a right to receive all or some of a participant's pension benefits.

Annual Audit: Federal law requires that all plans with more than 100 participants be audited by an independent auditor. It is also common to refer to a DOL or IRS examination of a plan as a plan audit.

Annual Report: A document filed annually (Form 5500) with the IRS that reports pension plan information for a particular year, including such items as participation, funding, and administration.

Annuity: A contract providing retirement income at regular intervals. See also qualified joint and survivor annuity.

Automatic Deferral Default Percentage: The percentage of pay that is taken pre-tax and put into a plan when an employee is enrolled via an automatic enrollment feature. The typical automatic deferral default percentage is 3 percent of pay. Participants can generally choose to defer an amount other than the default percentage.

Automatic Enrollment: The practice of enrolling all eligible employees in a plan and beginning participant deferrals without requiring the employees to submit a request to participate. Plan design specifies how these automatic deferrals will be invested. Employees who do not want to make contributions

must actively file a request to be excluded from the plan. Participants can generally change the amount of pay that is deferred and how it is invested.

B

Beneficiary: A person, persons or trust designated to receive the plan benefits of a participant in the event of the participant's death.

Blackout Period: Also called a lockdown, transitional period or quiet period. This refers to the time when plan participants cannot access their accounts. These periods can be caused by a number of events, including a change in plan record keepers, a change in plan trustees, a change to daily valuation from monthly valuation, or a company merger or acquisition.

C

Cafeteria Plan: In this plan employees may chose from a "menu" of two or more benefits.

Cash-Out: The distribution of assets from a plan to a participant prior to retirement, typically occurring when a participant has a balance under $5,000 and leaves a company without requesting to have their assets rolled over into an IRA or into a new employer's plan. Cash-outs are subject to federal withholding tax, and are subject to the ten percent early withdrawal federal income tax penalty if taken before age 59½.

Cash or Deferred Arrangement (CODA): A type of profit sharing or stock bonus plan in which employees may defer current pre-tax compensation.

Cash or Deferred Election: A participant request to defer compensation, on a pre-tax basis, to a CODA Plan.

Cash Profit Sharing Plan: A type of profit sharing plan in which the company makes contributions directly to employees in cash or stock. (This type of profit sharing plan is not a qualified retirement plan.)

Cliff Vesting: A vesting schedule that gives an employee 100 percent ownership of company contributions after a specified number of years of service. (See also vesting.)

Common Control: Businesses are under common control when one entity owns at least 80 percent of the stock, profit, or capital interest in the other organization, or when the same five or fewer people own a controlling interest in each entity.

Conversion: The process of changing from one service provider to another.

D

Deferred Profit Sharing Plan: A type of qualified retirement plan in which the company makes contributions to individual participant accounts.

Deferral: A pre-tax contribution set aside from an employee's paycheck.

Defined Benefit Plan: A retirement plan in which the sponsoring company provides a certain guaranteed benefit to participants based on a pre-determined formula.

Defined Contribution Plan: An employer-sponsored plan in which contributions are made to individual participant accounts, and the final benefit consists solely of assets (including investment returns) that have accumulated in these individual accounts. Depending on the type of defined contribution plan, contributions may be made either by the company, the participant, or both.

Department of Labor (DOL): The U.S. Department of Labor (DOL) deals with issues related to the American workforce – including topics concerning pension and benefit plans. Through its branch agency the Pension and Welfare Benefits Administration, the DOL is responsible for administering the provisions of Title I of ERISA, which regulates proper administration of plans.

Disclosure: Plan sponsors must provide access to certain types of information for participants, including summary plan descriptions, summary of material modifications, and summary annual reports.

Determination Letter: Document issued by the IRS formally recognizing that the plan meets the qualifications for tax-advantaged treatment.

Discrimination Testing: Tax qualified retirement plans must be administered in compliance with several regulations requiring numerical measurements. Typically, the process of determining whether the plan is in compliance is collectively called discrimination testing.

Distribution: Any payout made from a retirement plan. See also lump sum distribution and annuity.

E

Early Withdrawal Penalty: There is a 10 percent early withdrawal federal income tax penalty for withdrawal of assets from a qualified retirement plan prior to age 59½. This 10 percent early withdrawal federal income tax penalty is in addition to regular federal and state tax (if applicable).

Eligibility: Conditions that must be met in order to participate in a plan, such as age or length of service requirements.

Eligible Employees: Employees who meet the requirements for participation in an employer-sponsored plan.

Employee stock ownership plan (ESOP): A qualified, defined-contribution plan in which plan assets are invested primarily or exclusively in the securities of the sponsoring employer.

ERISA: Plan sponsors are required by law to design and administer their plans in accordance with the Employee Retirement Income Security Act of 1974 (ERISA). Among its statutes, ERISA calls for proper plan reporting and disclosure to participants.

ERISA Rights Statement: ERISA requires that this document, explaining participant and beneficiary rights, be included within a summary plan description (SPD).

Excess Accumulations: The amount that a participant's required minimum distribution (after age 70½) surpasses the amount distributed. When distributions reach 50 percent above the minimum, they may be taxed.

Excess Aggregate Contributions: After-tax participant contributions or matching employer contributions that cause a plan to fail the 401(m) actual contribution percentage (ACP) non-discrimination test.

Excess Contributions: Pre-tax participant contributions that cause a plan to fail the 401(k) actual deferral percentage (ADP) non-discrimination test.

Excess Benefit Plan: A plan, or part of a plan, maintained to provide benefits that exceed IRS Code 415 limits on contributions and benefits.

Excludable Employees: The employees that may be excluded from the group being tested during 401(k) nondiscrimination testing. The following are excludable employees: certain ex-employees; certain airline pilots; non-resident aliens with no US source of income; employees who do not meet minimum age and length of service requirements; and, employees whose retirement benefits are covered by collective bargaining agreements.

Exclusive Benefit Rule: A rule under ERISA that says the assets in an employee account may be used for the exclusive benefit of the employee and his/her beneficiaries.

Expense Ratio: The percentage of a fund's assets that are used to pay its annual expenses.

F

Facts and Circumstances Test: The test determining whether financial need exists for a 401(k) hardship withdrawal.

FICA: The Federal law that taxes employee wages for Social Security and other programs.

Fidelity Bond: Protects participants in the event a fiduciary or other responsible person steals or mishandles plan assets.

Fiduciary: A person with the authority to make decisions regarding a plan's assets or important administrative matters. Fiduciaries are required under ERISA to make decisions based solely on the best interests of plan participants.

Fiduciary Insurance: Insurance that protects plan fiduciaries in the event that they are found liable for a breach of fiduciary responsibility.

Forfeiture: Plan assets surrendered by participants upon termination of employment before being fully vested in the plan. Forfeitures may be distributed to the other participants in the plan or used to offset employer contribution.

Form 1099R: A form sent to the recipient of a plan distribution and filed with the IRS listing the amount of the distribution.

Form 5500: A form which all qualified retirement plans (excluding SEPs and SIMPLE IRAs) must file annually with the IRS.

G

Graduated or Graded Vesting: A vesting schedule in which the employee earns the right to employer contributions gradually over a period of years, for example 25 percent ownership each year for four years. (See also vesting.)

Guaranteed Investment Contracts (GICs): Accounts that are invested in interest-bearing contracts purchase directly from banks, insurance companies, or mutual funds, which guarantee to maintain the value of the principle and all accumulated interest. Also called stable value funds, these accounts do not go down in value.

H

Hardship or In-Service Distribution: When a participant withdraws plan funds prior to retirement, at the employer's option. Eligibility for such distributions exists when financial hardship is present. These distributions are taxable as early distributions and are subject to a ten percent early withdrawal federal income tax penalty if the participant is under age 59½.

Highly Compensated Employees (HCEs): An employee who received more than $90,000 in compensation in 2002 (indexed annually) or is a 5 percent owner in the company.

I

Individual Retirement Account (IRA): Personal retirement vehicles in which a person can make annual tax deductible contributions. These accounts must meet IRS Code 408 requirements, but are created and funded at the discretion of the employee. They are not employer sponsored plans.

Internal Revenue Service (IRS): This branch of the U.S. Treasury Department is responsible for administering the requirements of qualified pension plans and other retirement vehicles. The IRS also worked with the DOL and the PWBC to develop Form 5500, and is now responsible for monitoring the data submitted annually on Form 5500 reports.

K

Keogh Plan: A qualified defined contribution plan permitting self-employed individuals to contribute a portion of their earnings pre-tax to an individual account.

KSOP: A plan arrangement that includes both 401(k) contributions and an ESOP.

L

Leased Employee: An individual employed by a leasing organization that provides contract services for the company for the period of more than one year.

Lump-Sum Distribution: The distribution at retirement of a participant's entire account balance within one calendar year due to retirement, death or disability.

M

Matching Contribution: A contribution made by the company to the account of the participant in ratio to contributions made by the participant.

Material Modification: A change in the terms of the plan that may affect plan participants, or other changes in a summary plan document (SPD).

Median Market Cap: An indicator of the size of companies in which a fund invests.

Money Market Fund: A mutual fund seeking to generate income for participants through investments in short-term securities.

Money-Purchase Plan: A type of defined contribution plan in which the employer's contributions are determined by a specific formula, usually as a percentage of pay. Contributions are not dependent on company profits.

Multi-Employer Plan: A pension plan to which more than one employer contributes, and which is maintained according to collective bargaining agreements.

Mutual Fund: An account with a broad range of investment options, each of which are diversified, reducing the risk to the participant.

N

Named Fiduciary: The plan document must name one or more fiduciaries, giving them the authority to control and manage the operation of the plan. The named fiduciary must also be identified as a fiduciary by a procedure specified in the plan document.

Nondiscrimination Rules: IRS rules that prohibit the plan or plan sponsor from giving disproportionately larger benefits to highly compensated employees (HCEs). Specific nondiscimination testing must be done to determine if plans have broken this rule and are top heavy.

Nonelective Contribution: An employer contribution that cannot be withdrawn or paid to the employee in cash. This contribution is neither a matching contribution or an elective contribution.

Non-Highly Compensated Employees (NHCEs): Employees who are not highly compensated. Generally, they are employees who earned less than $90,000 in 2002 (indexed for inflation). See highly compensated employees.

Non-Qualified Deferred Compensation Plan: A plan subject to tax, in which the assets of certain employees (usually highly compensated employees) are deferred. These funds may be reached by an employer's creditors.

P

Participant: Person who has an account in the plan and any beneficiaries who may be eligible to receive an account balance.

Participant Directed Account: A plan that allows participants to select their own investment options.

Party-In-Interest: Those who are a party-in-interest to a plan include: the employer; the directors, officers, employees or owners of the employer; any employee organization whose members are plan participants; plan fiduciaries; and plan service providers.

Pension and Welfare Benefits Administration (PWBA): This branch of the Department of Labor protects the pensions, health plans, and other employee benefits of American workers. The PWBA enforces Title I of ERISA, which contains rules for reporting and disclosure, vesting, participation, funding, and fiduciary conduct.

Pension Benefit Guaranty Corporation (PBGC): A federal agency established by Title IV of ERISA for the insurance of defined benefit pension plans. The PBGC provides payment of pension benefits if a plan terminates and is unable to cover all required benefits.

Plan Administrator: The individual, group or corporation named in the plan document as responsible for day-to-day operations. The plan sponsor is generally the plan administrator if no other entity is named.

Plan Document: The parameters under which a retirement plan will be operated must be outlined in the plan document. This document must be given to employees upon request.

Plan Loan: Loan from a participant's accumulated plan assets, not to exceed 50 percent of the balance or $50,000, less the amount of any outstanding loans. This is an optional plan feature.

Plan Sponsor: The entity responsible for establishing and maintaining the plan.

Plan Year: The calendar, policy or fiscal year for which plan records are maintained.

Portability: This occurs when, upon termination of employment, an employee transfers pension funds from one employer's plan to another without penalty.

Pre-Retirement Survivor Rights: The right of a surviving beneficiary to receive benefits if vested plan participant dies before retirement.

Price/Book Ratio: The share price of a stock divided by its net worth, or book value, per share.

Price/Earnings (PE) Ratio: The ratio of a stock's current price to its earnings per share over the past year. The PE ratio of a fund is the weighted average of the PE ratios of the stocks it holds.

Prohibited Transaction: Activities regarding treatment of plan assets by fiduciaries that are prohibited by ERISA. This includes transactions with a party-in-interest, including, sale, exchange, lease, or loan of plan securities or other properties.

Profit Sharing Plan: Company-sponsored plan funded only by company contributions. Company contributions may be determined by a fixed formula related to the employer's profits, or may be at the

discretion of the board of directors.

Prudent Man Rule: ERISA fiduciary law that requires all fiduciaries to conduct the business of the plan with prudence and care. Any fiduciary violating this law is liable to the plan and its participants for all losses.

Q

Qualified Domestic Relations Order (QDRO): A judgment, decree or order that creates or recognizes an alternate payee's (such as former spouse, child, etc.) right to receive all or a portion of a participant's retirement plan benefits.

Qualified Joint and Survivor Annuity (QJSA): An annuity with payments continuing to the surviving spouse after the participant's death, equal to at least 50 percent of the participant's benefit.

Qualified Plan: Any plan that qualifies for favorable tax treatment by meeting the requirements of section 401(a) of the Internal Revenue Code and by following applicable regulations. Includes 401(k) and deferred profit sharing plans.

R

Rollover: The action of moving plan assets from one qualified plan to another or to an IRA within 60 days of distributions, while retaining the tax benefits of a qualified plan.

S

Safe Harbor Rules: Provisions that exempt certain individuals or kinds of companies from one or more regulations.

Salary Deduction: Also known as payroll deduction. When a plan participant arranges to have pre-tax contributions made directly from their paycheck, it is arranged through salary deduction.

Savings Incentive Match Plan for Employees: A type of defined contribution plan for employers with 100 or fewer employees in which the employer matches employee deferrals up to 3 percent of compensation or provides non-elective contributions up to 2 percent of compensation. These contributions are immediately and 100 percent vested, and they are the only employer contribution to the plan. SIMPLE plans may be structured as individual retirement accounts (IRAs) or as 401(k) plans.

Service Provider: A company that provides any type of service to the plan, including managing assets, recordkeeping, providing plan education, and administering the plan.

Schedule SSA: A form that must be filed by all plans subject to ERISA Section 203 minimum vesting requirements. The schedule, which is attached to Form 5500, provides data on participants who separated from service with a vested benefit but were not paid their benefits.

Simplified Employee-Pension Plan (SEP): A defined contribution plan in which employers make contributions to individual employee accounts (similar to IRAs). Employees may also make pre-tax contribu-

tions to these accounts. As of January, 1997 no new SEP plans may be formed.

SIMPLE Plan: See Savings Incentive Match Plan for Employees.

Stock Bonus Plan: A defined contribution plan in which company contributions are distributable in the form of company stock.

Summary Annual Report: A report that companies must file annually on the financial status of the plan. The summary annual report must be automatically provided to participants every year.

Summary Plan Description (SPD): A document describing the features of an employer-sponsored plan. The primary purpose of the SPD is to disclose the features of the plan to current and potential plan participants. ERISA requires that certain information be contained in the SPD, including participant rights under ERISA, claims procedures and funding arrangements.

Summary of Material Modifications: A document that must be distributed to plan participants summarizing any material modifications made to a plan.

T

Target-benefit plan: A type of defined contribution plan in which company contributions are based on an actuarial valuation designed to provide a target benefit to each participant upon retirement. The plan does not guarantee that such benefit will be paid; its only obligation is to pay whatever benefit can be provided by the amount in the participant's account. It is a hybrid of a money-purchase plan and a defined-benefit plan.

Tax Sheltered Annuity (TSA): See 403(b) plan.

Top Heavy Plan: A plan in which 60 percent of account balances (both vested and non-vested) are held by certain highly compensated employees.

Trustee: The individual, bank or trust company having fiduciary responsibility for holding plan assets.

Turnover Rate (of a fund): A measure of the trading activity in a mutual fund.

V

Vesting: The participants' ownership right to company contributions.

Vesting Schedule: The structure for determining participants' ownership right to company contributions (see matching contributions). In a plan with immediate vesting, participants own all company contributions as soon as they are deposited into individual accounts. In cliff vesting, company contributions will be fully owned (i.e., vested) only after a specific amount of time, and employees leaving before the allotted time are not entitled to any company contributions (with certain exceptions for retirees). In plans with graduated or graded vesting, vesting occurs in specified increments.