

To: Contributing Employer to the NCEW Money Purchase Pension Plan

From: Plan Office

Date: October 2006

Subject: Plan Changes That Will Affect Your Payroll

The Northern California Electrical Workers Money Purchase Pension Plan is being converted to a 401(k)/profit sharing plan effective for all hours worked after December 31, 2006. This change is being made to reflect various changes in tax and pension laws over the past few years, and to give participants more flexibility to vary their contributions to the Plan depending on their own circumstances.

There are several consequences to this change that will require you to modify your payroll procedures. Please carefully note the following, and make the changes requested:

1. **Wage Rates.** For payroll purposes, all non-apprentice employees will have a wage rate equal to the Class II wage rate set forth in the bargaining agreement. For the purposes of FICA payroll taxes, you will no longer differentiate wage rates according to classification in your payroll system. As a result, you should revise the FICA wage rate of every Class III, IV and V employee in your payroll specifications to show the Class II wage rate. Effective as of January 1, 2007, classification designations above Class II will be used solely to identify the amount an employee has elected to defer from wages as a 401(k) contribution. The current base contribution required to be made by each employer will remain the same (\$3.04), but this contribution shall be a profit sharing contribution.
2. **401(k) Contributions.** Every non-apprentice employee has been sent an election form explaining the conversion of the Money Purchase Pension Plan to a Profit Sharing/401(k) Plan, and giving each an opportunity to elect to make pre-tax contributions to the Plan of up to \$5.00 per hour (in whole dollar increments). Unless you are notified otherwise by the Plan Office, you should assume that your employees make 401(k) contributions to the Plan for 2007 based on his or her 2006 Money Purchase contribution classification. Thus, a Class II employee will contribute zero, a Class III employee will contribute \$1.00, a Class IV employee will contribute \$2.00 and a Class V employee will contribute \$3.00. Two new 401(k) contribution classifications have been added for 2007: Class VI (\$4.00) and Class VII (\$5.00). We will inform you no later than December 18, 2006, which of your employees (if any) has returned an election form to EISB requesting a change (which may be anywhere in one dollar increments from zero to \$5.00 per hour). You will need to withhold the amount elected by the employee, or the assumed amount described above if you are not notified of a change, and treat those withheld amounts as 401(k) contributions.
1. **Your Remittances to the Plan.** You must continue to pay the Plan \$3.04 per hour as an employer profit sharing contribution for all non-apprentices. In addition, for apprentices, you will make a profit sharing contribution, only, as set forth in the bargaining agreement.

You must also pay over to the Plan the 401(k) contributions withheld as explained in paragraph 2 above.

As a convenience to contributing employers, there will be no changes in the format in which contributions are remitted to the San Francisco Electrical Industry Accounts. The “elective contributions” are to be included with the \$3.04 hourly base defined contribution rate and the \$3.81 hourly defined benefit plan rate on the monthly payroll remittance report as follows:

<u>Class</u>	<u>DBRate</u>	<u>DC Rate</u>	<u>401(k) rate</u>	<u>Total Rate</u>
Class II	\$3.81	+ 3.04	+\$ 0.00=	\$ 6.85
Class III	\$3.81	+ 3.04	+ 1.00=	7.85
Class IV	\$3.81	+ 3.04	+ 2.00=	8.85
Class V	\$3.81	+ 3.04	+ 3.00=	9.85
Class VI	\$3.81	+ 3.04	+ 4.00=	10.85
Class VII	\$3.81	+ 3.04	+ 5.00=	11.85

Contributing employers are to report “pre deferral” (Class II) wages on the monthly remittance report and to continue to calculate the NEBF and AMF contributions based on the total wages that are included on the report.

- Effect on Tax Reporting and Withholding.*** All 401(k) contributions described in paragraph 2 will be withheld from gross wages in your payroll system. The amount withheld will reduce the employee’s wages for income tax withholding purposes, but will not reduce the employee’s wages for social security tax purposes. Please be sure that your payroll procedures accurately account for this difference. Your employees’ Forms W-2 for 2007 (to be sent in early 2008) should reflect these changes.
- Effect on Vacation/Holiday/Thrift Savings Withholding.*** Wage percentage calculations for the purpose of determining “vacation/holiday/thrift savings” that is to be withheld from employee paychecks will be based on “pre-deferral” taxable wages (Class II wages). The amounts withheld will, therefore, be the same whether or not an employee chooses to make 401(k) contributions to the Plan.
- Effect on Employees Who you Send to Work in Other Areas Under an Industry Portability Agreement.*** Employees who have elected to contribute 401(k) contributions to the Plan will continue to do so when they are sent to work in other areas under a portability agreement. These contributions are to be reported with any “supplemental contributions” that may be payable to the San Francisco Electrical Industry Accounts on the monthly “differential transmittal”, in the same manner as “additional employer contributions” are now being reported to the Money Purchase Plan.

Should you have any questions, please call the Plan Office at (415) 263-3670.