ATTORNEY THOMAS MERKLE APPOINTED TO MILWAUKEE OFFICE OF LAWYER REGULATION DISTRICT COMMITTEE

Milwaukee, Wisconsin (March, 2007) – Thomas A. Merkle, a shareholder with the law firm of O'Neil Cannon was recently appointed by the Wisconsin Supreme Court to serve on the Office of Lawyer Regulation's District Two Committee (Milwaukee). The office of lawyer regulation is an office of the Wisconsin Supreme Court System charged with carrying out the Supreme Court's constitutional responsibility to supervise the practice of law and protect the public from misconduct by persons practicing law in Wisconsin.

Mr. Merkle is one of the initial members of O'Neil Cannon He counsels his clients with general corporate and business law matters, including transactions such as acquisitions, sales, contracts, and financing. He also litigates cases involving shareholder disputes as well as family law cases involving closely-held businesses, partnerships, and professional associations. A trained mediator, Tom has also helped numerous clients with the resolution of shareholder disputes, business and family law issues. Tom is one of the founders of the Divorce Cooperation Institute, a group dedicated to fostering cooperation and greater professionalism among family law practitioners. He currently serves on the Board of Directors and is the organization's treasurer.

O'Neil Cannon is a full-service legal practice focusing on business law, estate planning, and major complex litigation with offices in Milwaukee and Port Washington. The firm was established in 1973 and is now listed as one of the Milwaukee-area's largest law firms.

O'NEIL, CANNON, HOLLMAN, DEJONG AND ATTORNEY TESS RECOGNIZED AS VOLUNTEERS OF THE YEAR

Milwaukee, Wis. (March, 2007) – The law firm of O'Neil Cannon and Attorney Robert Tess was recognized for their volunteer activities by HeartLove Place at a recent appreciation celebration.

The firm and Attorney Tess was recognized as Business of the Year and Volunteers of the Year for their legal assistance to HeartLove Place.

HeartLove Place is a non-profit organization conceived as a visible, neighborhood-based, well-managed facility where religious, social, and employment values are reinforced through the delivery of a continuum of program offerings for the families that participate. At the core of Heartlove Place is a strong desire to unify families, strengthen values, and energize a greater sense of community spirit within the central city.

Bob Tess is a real estate law attorney who represents developers, property owners, private and public companies, and lenders in all phases of transactions involving the acquisition, disposition, leasing, and financing of industrial, commercial, and mixed-use properties. A former corporate counsel in the real estate department for Menard, Inc., Bob was responsible for all aspects of new store and shopping center real estate development, acquiring over fifty million dollars in real estate and selling over two million dollars in excess property for the company in just under two years. He successfully handled all aspects of each new store project – from negotiating and drafting all applicable real estate documents, to obtaining all necessary governmental approvals.

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GREGORY S. MAGER NAMED EDITOR IN CHIEF OF WISCONSIN JOURNAL OF FAMILY LAW

Gregory S. Mager, an attorney with the law firm of Ansay OCHD, the Port Washington office of O'Neil Cannon, was recently named the editor in chief of the Wisconsin Journal of Family Law.

The Wisconsin Journal of Family Law is a quarterly publication of the Family Law Section of the State Bar of Wisconsin that provides practitioners with articles from preeminent lawyers, both nationally and locally, who provide innovative ideas and information on new developments in family law, as well as reviews of recent Wisconsin Supreme Court and Court of Appeals decisions.

Gregory is an associate at Ansay OCHD whose practice focuses on divorce, paternity, custody and placement, support, post-judgment matters, and mediation. He has Martindale-Hubbell's highest Peer Review rating of AV and received the 2004-2005 American Bar Association Section of Family Law Chair's Award, "For meritorious service exceeding what is expected of our leadership."

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BENEFITS UNDER SEVERANCE PLAN DETERMINED ON DATE EMPLOYEE STOPPED WORKING

Fifth Circuit Court of Appeals denies former Sabre, Inc. employee’s claim that he was entitled to severance benefits determined on the date he was informed that he was to be terminated and not severance benefits determined on the date he actually stopped working.

Although the severance plan did not define the term “termination of employment” or explain when a termination of employment occurs, the Court found that the plan administrator was proper in its interpretation of the plan when it determined that Chacko’s termination occurred when he officially separated from Sabre. Because of this, the severance plan that applied to Chacko was the one in effect on the date he officially separated from Sabre.

Ninan Chacko worked for Sabre, Inc. since 1990. In September 2003, he learned that the company intended to implement a company-wide layoff and on September 29, 2003 Chacko was informed that he would be offered a severance package. Chacko and his superior planned for Chacko’s last day to be October 13, 2003. Soon after September 29, 2003, Chacko accepted an offer of employment by one of Sabre’s competitors.

On September 29, 2003 Sabre maintained the Sabre, Inc. Severance Plan (the “General Severance Plan” or GSP) which provided for up to twenty-six weeks of salary benefits payable in a lump sum conditioned upon the execution by the terminated employee of an agreement and general release (“Agreement and General Release” or AGR) that released all causes of action and claims against Sabre and related parties. The GSP gave Sabre the right to terminate or amend the GSP at any time and further provided that participants had no vested right to benefits under the severance plan.

On September 30, 2003, Chacko received a separation summary outlining the terms of his severance package which stated that he would be offered thirty-two weeks of salary benefits payable over an eight-month period conditioned upon his signing a general release containing non-compete and non-solicitation provisions (the “Expanded AGR”.) Chacko refused to sign the Expanded AGR believing that the non-compete and periodic payment provisions to be contrary to the terms of the GSP, On October 7, 2003, Sabre’s Benefits

Committee adopted a resolution amending the GSP to grant Sabre the discretion 1) to include non-compete and non-solicitation provisions in the terminated employee's AGR; and 2) to pay severance benefits in periodic installments (the "Amendment".) The resolution provided that the Amendment was effective immediately.

On October 17, 2003, Chacko officially separated from Sabre. On November 3, 2003 he filed a claim for severance benefits in which he indicated he was willing to sign an AGR that was consistent with the pre-amendment GSP (without the non-compete and non-solicitation provisions) and that he demanded payment of his benefits in a lump sum as opposed to periodic payments allowed by the Amendment.

On November 6, 2003, Sabre informed Chacko that the Plan Administrator had denied his claim for benefits based on the fact that on his termination date, the plan as in effect allowed for both the non-compete and non-solicitation provisions as well as payment of benefits in periodic installments. Chacko appealed to an independent appeals committee which denied his appeal on the grounds that 1) he had no vested rights under the plan in effect on September 29, 2003; 2) that the GSP granted Sabre the right to amend or terminate the GSP at any time; 3) that the October 7, 2003 amendment was validly executed; 4) Sabre had complied with ERISA's notice requirements regarding the amendment; and 5) Chacko was not eligible for the GSP in effect on October 17, 2003 because he refused to sign the Expanded AGR.

Chacko sued Sabre, the GSP, the Benefits Committee, the Plan Administrator and others claiming that he was wrongfully denied benefits under the GSP in violation of ERISA Section 502(a)(1)(B) which provides an ERISA plan participant or beneficiary a cause of action to recover benefits due him under the terms of the plan, enforce his rights under the plan or clarify his right to future benefits under the plan.

The district court granted Sabre's motion for summary judgment finding that the Plan Administrator's denial of benefits was not an abuse of discretion. Chacko appealed to the Fifth Circuit court claiming that Sabre et.al. engaged in "inequitable conduct" by offering him a severance package one day before the change adding the non-compete and non-solicitation provisions and changing the benefit payout option to installments. He also alleged that Sabre et al. breached their fiduciary duty of loyalty and engaged in self-dealing by conditioning his receipt of severance benefits upon his execution of a non-compete agreement. Chacko also challenged the Administrator's denial of benefits under the terms of the GSP, claiming that he should receive the benefits in effect as of the date he was told he would be offered a severance package (September 29, 2003) instead of the amended GSP in effect on the date he stopped working for Sabre (October 17, 2003.)

The Fifth Circuit Court affirmed the lower court's decision that the Plan Administrator did not abuse its discretion in amending the plan or in denying benefits to Chacko. The Court

explained that in reviewing a plan administrator's plan interpretation for abuse of discretion, the Court must initially determine whether the administrator's interpretation is legally correct. If the interpretation is legally correct then no abuse of discretion could have occurred. Here, the Court found that the Administrator's interpretation of the term "termination" was consistent with the fair reading of the severance plan. Further, the Court indicated that the interpretation of the term "termination" proposed by Chacko would lead to the unintended result that employees could demand severance plan benefits while they were still receiving regular pay.

Chacko v. Sabre Inc., 5th Cir., No. 05-11445, 12/21/2006. The decision is available at http://caselaw.lp.findlaw.com/data2/circs/5th/0511445cv0p.pdf

Practice Pointer—Employers should take the time to review and understand the terms of their benefit plans, including the process and timing requirements for making plan amendments.

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WILLIAM RYAN DREW ELECTED PRESIDENT OF CITY OF MILWAUKEE RETIREES ASSOCIATION

William Ryan (Bill) Drew, of Counsel to the law firm of O'Neil Cannon, was recently elected the President of the City of Milwaukee Retirees Association. The Association represents approximately 12,000 retirees of the City. Bill is also the current Executive Director of the Milwaukee County Research Park Corporation, where he is overseeing the high technology development on approximately 150 acres of Milwaukee County Property.

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ERISA PREEMPTS STATE LAW CLAIM FOR BREACH OF CONTRACT OVER ESOP BENEFITS

The Six Circuit Court of Appeals rules that ERISA preempts state law claims against Fifth Third Bank.

In a complicated set of facts, Suburban Bancorp and Fifth Third Bank entered into a merger agreement that contained language covering Suburban's ESOP because the ESOP held shares of Suburban. The merger agreement provided that Suburban obtain determination from IRS that the ESOP satisfied relevant tax regulations and perform several other tasks associated with the ESOP because of a concern of the tax implication of distributing the ESOP shares prematurely. Pending the determination by the IRS, the merger agreement provided that Suburban maintain the ESOP for the benefit of individuals who were ESOP participants on or before the merger (the class members.) The merger agreement also included a contingency plan for the ESOP that provided that if the parties agreed in good faith that allocating the ESOP shares would violate IRS rules, then Suburban would apply to the IRS for approval allowing the ESOP funds to either revert to Fifth Third Bank or be transferred to one of Fifth Third's benefit plans. The merger agreement further provided that if and only if the IRS approved the transaction allowing for the reversion or transfer of shares to Fifth Third, or if Fifth Third proceeded with the reversion or transfer without IRS approval, that Fifth Third would pay class members out of its own corporate assets the amount of money in the ESOP at the time of the merger less administrative costs.

Suburban started the process necessary to distribute ESOP funds to class members, but did not finish the process or obtain the IRS determination regarding the tax issues. After the merger, Fifth Third, which became the successor ESOP sponsor and trustee, made amendments to the ESOP which effectively ensured that class members would no longer recover benefits from the ESOP. Thereafter Fifth Third terminated the ESOP distributing the proceeds to Fifth Third employees, and not to class members.

Hutchison, on behalf of the class members brought three types of claims—two of which were state-law claims relating to Fifth Third's breach of the merger agreement, misrepresentation and negligent misrepresentation as well as conversion and unjust enrichment relating to the alleged taking by Fifth Third of the ESOP's assets. The third claim was an ERISA claim. The lower federal court held that ERISA preempted the state law claims and dismissed the ERISA claim finding that Fifth Third did not breach any fiduciary duties owed to class members.

The appeal to the Sixth Circuit Court of Appeals only concerns the lower court's decision to dismiss the state law claims not the dismissal of the ERISA claim.

The Six Circuit Court affirmed the lower court ruling finding that the state law claims relating to Fifth Third's alleged breach of the merger agreement were preempted by ERISA because the necessary elements of the state law claims (amending the plan to exclude class members) go to the heart of what Congress intended ERISA to govern. They ruled so even though some of the elements of the state law cause of action came into existence before

Fifth Third was an ERISA fiduciary to the ESOP. The court concluded that because the class members sought damages for ERISA-regulated actions of an ERISA fiduciary, based on the merger agreement entered into before Fifth Third became a plan fiduciary, the state law contract claim would bind fiduciaries to particular choices, thereby functioning as a regulation of an ERISA plan.

Hutchison v. Fifth Third Bancorp, 6th Cir., No. 05-4389, 11/30/2006.
http://www.ca6.uscourts.gov/opinions.pdf/06a0448p-06.pdf

This is a reminder that as noted by the court here, ERISA is comprehensive and preempts virtually any state law claim relating to an employee benefit plan.

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PAY ATTENTION TO PENSION PROTECTION

The Pension Protection Act of 2006 was signed into law on Aug. 17, 2006. At a whopping 900-plus pages, the Act makes significant changes to the Code and ERISA. Although the Act has been widely publicized in its efforts to reform pension plans, much of it impacts defined contribution plans such as 401(k)s, 403(b)s and 457 plans, as well as IRAs. Below is a summary of some of the key provisions impacting defined contribution plans and IRAs.

EGTRRA permanency. The 2006 law made permanent many of the provisions of EGTRRA 2001 which were scheduled to expire in 2010. These include increased IRA and 401(k) contribution and deduction limits, age 50 and over catch-up contributions, Roth-type contributions to 401(k)s and 403(b)s, and more favorable rollover and vesting rules.

Investment advice. The Act provides fiduciary relief to plan fiduciaries. A prohibited transaction exemption is included for the provision of investment advice to plan participants. The exemption applies if the advice arrangement between the plan fiduciary and the investment adviser meets numerous requirements. It applies to flat fees and to advice using a computer model. Plan fiduciaries continue to have the fiduciary duty to prudently select and monitor the investment options as well as the investment adviser. Also, the fiduciary relief available under the exemption only applies to advice provided to participants, not to plan-level investment advice provided to the fiduciary by an investment adviser or manager.

Automatic enrollment 401(k) safe harbor. Under current law, employers can design 401(k) plans to include automatic enrollment provisions (also called negative elections).

These provisions enable them to withhold a certain amount from an employee's pay as a salary deferral unless the employee affirmatively elects not to contribute to the plan. The employee must be notified in advance. Plans containing automatic enrollment provisions are still subject to the ADP/ACP test and top-heavy rules. Effective for plan years beginning on or after Jan. 1, 2008, if this provision meets the new law requirements as a "qualified automatic contribution arrangement," the plan will satisfy the ADP/ACP test and the top-heavy rules. The plan must contain provisions regarding the minimum and maximum deferral amounts allowed, employee notice requirements, and mandatory employer contributions and vesting.

Default investment safe harbor. The Act requires the DOL to make a change to ERISA Section 404(c) that will provide plan fiduciaries protection for certain types of default investments. Currently, ERISA Section 404(c) provides relief to plan fiduciaries of participant-directed plans if participants direct their investments. It also provides relief if the plan satisfies certain design and disclosure requirements. However, if participants do not make investment selections, plan fiduciaries remain responsible for the investment of those participant accounts. The procedure often used is to invest those accounts in a default investment. Usually, the default investment has the lowest volatility of investment options and is designed for principal preservation. That, however, may not be the most prudent investment choice for a participant who has decades until retirement. It is anticipated that the new Section 404(c) default investment requirements will allow for the use of asset allocation funds and models that take into account risk tolerance and estimated years to retirement.

Electronic display of Form 5500s. For plan years beginning in 2008, the Form 5500 must be provided electronically so that some information can be displayed by the Department of Labor (DOL) on the Internet. Plan sponsors who maintain intranet sites must also display the information on the sponsor's intranet site.
Benefit statement requirements. Currently, ERISA generally requires that defined benefit and defined contribution plans provide participants benefit statements upon request, but not more than once per year. In the case of participant-directed plans intending to qualify for fiduciary relief under Section 404(c) benefit statements must be provided automatically and, generally, at least quarterly. Beginning for 2007 plan years, participant-directed plans must provide participants and beneficiaries benefit statements at least quarterly. The statement must contain information regarding the importance of diversifying plan investments and a message that refers the participant to a DOL Web site with information on investing. Employer-directed defined contribution plans must provide participants and beneficiaries benefit statements annually.

Individual Retirement Accounts (IRAs). The Act makes a number of changes impacting IRAs.

- Indexing traditional and Roth IRA contribution limits. Beginning in 2007, the income

limits for traditional and Roth IRA contributions will be indexed for inflation (rounded to the nearest $1,000).
- Direct deposit of tax refunds to IRAs. Beginning with the 2007 tax year, taxpayers may elect to direct deposit all or a portion of their tax refunds to an IRA of the taxpayer or spouse of the taxpayer in the case of a joint return. Previously, taxpayers only had the ability to elect direct deposit of their refunds to checking or savings accounts. This provision does not modify the rules relating to the timing and deductibility of IRA contributions or any other rules relating to IRAs.
- Direct rollover to Roth IRAs. For distributions made in plan years beginning on or after Jan. 1, 2008, participants in qualified retirement plans, 403(b) plans and governmental 457 plans will be able to roll over distributions directly from those plans into Roth IRAs, subject to current law.
- Tax-free distributions from IRAs for charitable purposes. For the 2006 and 2007 tax years only, IRA owners who are age 70½ and older can make distributions from traditional IRAs of up to $100,000 to tax-exempt charities.

Just as ERISA changed the retirement landscape for millions of workers over 30 years ago, so too does the Pension Protection Act change the landscape of existing laws affecting the private retirement system.

STEVE SLAWINSKI NAMED TOP CONSTRUCTION ATTORNEY

Steve Slawinski, an attorney with O'Neil Cannon was recently named one of Wisconsin's Top Construction Attorneys by *The Daily Reporter/Wisconsin Law Journal*. His practice emphasizes the areas of construction law and litigation – representing general contractors, sub-contractors, owners, and design professionals in construction disputes, including arbitration and litigation.

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ELEVEN OCHD ATTORNEYS AWARDED

“SUPERLAWYER” DESIGNATION

Eleven attorneys from O’Neil, Cannon, Hollman, DeJong have been named as Wisconsin Super Lawyers for 2006 by *Law and Politics/Milwaukee Magazine*.

Super Lawyers is a peer-nominated award recognizing the top 5% outstanding attorneys across the state of Wisconsin.

The attorneys included in the Super Lawyer listing are:

- Jim DeJong
- Eugene Duffy
- Pete Faust
- John Gehringer
- Dean Laing
- Greg Lyons
- Randy Nash
- Patrick McBride
- Angela Campion

Additionally, Dean Laing was selected as one of the Top 50 Super Lawyers in the state.

Patrick McBride and Angela Campion were selected as Super Lawyers Rising Stars.

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THE RISKS OF EXCLUDING PART-TIME AND SEASONAL WORKERS FROM QUALIFIED RETIREMENT PLANS

As more and more businesses are using part-time workers to address their hiring needs, it is important that employers consider how such workers affect their qualified retirement plans. In particular, employers and their service providers need to be very mindful of IRS guidance on the exclusion from qualified retirement plans of employees classified by the employer as part-time, seasonal, or temporary.

Earlier this year, the IRS issued a Quality Assurance Bulletin (QAB) to its employee plan agents regarding qualified retirement plans excluding part-time employees. In the QAB, the Service indicated that, effective with the opening of the EGTRRA Pre-Approved and Determination Letter Programs, agents will begin requesting that plan administrators remove or clarify language if a plan includes a provision that defines an exclusion classification by service and the plan provision could result in the exclusion, by reason of a minimum service requirement, of an employee who has completed a year of service. In particular, any plan containing a part-time, seasonal, temporary, or any other classification of employees will be scrutinized.1

The emphasis by the IRS on class exclusions is not new. In 1994, the Service issued a Field Directive indicating that a plan may not exclude any part-time employee where it is possible for that employee to complete one year of service. Such exclusion, although not directly referring to age or service, may result in imposing a service requirement not consistent with § 410(a)(1) or § 410(b) of the Code. Section 410(a)(1) of the Code imposes certain minimum participation standards on qualified retirement plans. If a plan requires, as a condition of participation, that an employee complete a period of service with the employer extending beyond the later of the date on which the employee attains age 21 or completes one year of service,2 then the plan will not be considered a qualified plan.

For example, a calendar-year plan requires one year of service and excludes part-time or seasonal employees if their employment is not for more than 20 hours per week or five months in any plan year.3 Joe, whose date of hire is January 1st, is classified as a part-time employee and consistently works 20 hours per week. Code Section 410(a) defines a year of service as a 12-month period during which the employee has not less than 1,000 hours of service.

Joe, by consistently working 20 hours per week from January through the end of December works 1,040 hours per year. Because the part-time/seasonal plan definition requires employees to work more than 20 hours per week, the exclusion has the effect of requiring more than one year (1,000 hours) of service. The plan could not maintain its qualified status despite the fact that the plan could satisfy the coverage requirements under 410(b) after excluding all part-time and seasonal employees.

The IRS's Position Develops

Although the IRS treated part-time and other class exclusions with suspicion, its position as stated in a Technical Advice Memorandum (TAM) issued in 2000 was not to reject or require clarification of plan provisions that may impose impermissible age or service requirements at the time a determination letter was requested. Rather, the approach was to identify impermissible age and service conditions during the plan audit process. This was, however, after some determination letters were issued containing a caveat that the letter could not be

relied on with respect to whether a plan's exclusion classifications, if any, violate the minimum age or service requirements of Section 410 by indirectly imposing any impermissible age or service requirements.

In 2001, the IRS revised Publication 794, which explains the limitations and scope of determination letters. Publication 794 indicates that a determination letter cannot be relied upon for purposes of § 410(a)(1). Thereafter, the IRS ceased issuing determination letters with the caveat included. In the QAB issued earlier this year, the IRS cautioned that an employer who received a determination letter on or after July 1, 2001 (after the release of revised Publication 794) cannot rely on its determination letter to protect the plan from retroactive disqualification if the plan contains an impermissible age or service requirement. Employers receiving determination letters before July 1, 2001, whose plans contain impermissible age or service provisions, may be able to rely on their determination letters, but only if the determination letters do not contain the caveat regarding non-reliance with respect to class exclusions.

Employers with plans containing part-time or other class exclusions need to review their plans to determine if the plan language provides a fail-safe in the event a part-time employee completes 1,000 hours of service in an eligibility computation period. Such a provision would act to allow those part-time employees into the plan, despite the part-time classification. If an employer's plan does not have a fail-safe provision, the employer should consult its attorney regarding using the IRS Voluntary Correction Program (VCP) to correct the document failure. Employers should also consult their attorneys if, despite a fail-safe provision in the plan, part-time workers who complete 1,000 hours of service have been excluded from participation.

Costly Correction

It can be costly for employers to correct this kind of plan defect. The correction method required under VCP is for the employer to include the improperly excluded employees into the plan and make contributions (plus attributable earnings) on behalf of those employees for the plan years in which they were improperly excluded. In the case of a 401(k) plan, the required contribution for each improperly excluded employee would be an amount equal to the average deferral percentage of the employee's testing group for non-discrimination testing purposes (highly or non-highly) plus a matching contribution (if the employer made a match) and attributable earnings on the deferral and match amounts, for each plan year in which the employee was excluded.4 This puts each employee in the same position he or she would have been in had he or she not been excluded from the plan. Despite the costs of voluntary correction, going through the correction program is much more cost effective than having the plan defect discovered during an IRS audit because the IRS would impose a sanction in addition to requiring the employer to provide contributions and earnings for the excluded employees.

The 1,000 Hour Exception

Employers can continue to use certain class exclusions as long as the plan also provides that employees working at least 1,000 hours will be eligible to participate. For example, a plan requires one year of service for participation and excludes part-time or seasonal employees. The plan further defines a part-time or seasonal employee as one who works less than 1,000 hours of service in an eligibility computation period. The QAB indicates that this is an acceptable class exclusion. Likewise, the QAB states that a plan provision that requires one year of service for participation and excludes hourly paid employees (those employees defined by the plan as receiving an hourly wage for their services) would not be challenged by the IRS because the plan is not excluding the hourly paid employees based on an age or service requirement.

Careful plan design can allow employers to accomplish their objectives while not running afoul of IRS guidance.
Notes 1. Employee Plans Determinations Quality Assurance Bulletin, Part-Time Employees Revisited, FY-2006 No.3, February 14, 2006. 2. Two years of service under § 410(a) (1) (B) (i). 3. QAB noted in endnote 1 above, citing Treasury Regulation § 1.410(a) (3) (e) (2), Example 3. 4. See Revenue Procedure 2003-44.