The Swerdlin Quarterly

Swerdlin & Company
Volume 3 ❖ Number 4 | Actuaries ❖ Employee Benefit Consultants | Fourth Quarter 1997

Year End Review

It's hard to believe 1997 is almost over and year end for calendar plans is only a few weeks away. Why not take a few minutes now to review your retirement plan before 1997 becomes history.

It's not too late to start a new plan or change your current plan for 1997. Does your present plan meet your needs? (See "Questions To Ask Yourself" on page 3) There may be time to make some changes prior to December 31, 1997.

Have you communicated with your plan advisors about changes in your business? Has there been a change in ownership? Have you hired family members? Have you purchased a new business or sold an old one? Any one of these events can change the operation of your retirement plan.

Did you start any new employee benefit programs in 1997?

(Continued on page 2)

Dorn's Corner

As 1997 comes to a close, we at Swerdlin & Company are proud to announce this will be our best year ever. Best in terms of "hard" measurements, but also in terms of "soft" measurements such as atmosphere in the office, improved relationships, and healthy attitudes. As you know, improvements in the "soft" or people domain leads to significant improvements in the "hard" dollar results. 1997 for us supports this contention.

(Continued on page 2)

What's Happenin'

We celebrated Joanne Swerdlin's 50th birthday with a surprise party.

Welcome aboard to Mara Boyack, Darlene Coulter and Jennifer Krebs who have recently joined the Swerdlin & Company staff. Mara and Darlene are new client managers and Jennifer has taken over our reception desk.■

Dorn's Corner

(Continued from page 1)

I am declaring 1998 the Year of the Consultant. One of our Statements of Values is that "We are consultants." We want to focus during 1998 on what it means to be a consultant, and to put it into practice. To me a consultant:

- Listens carefully to his or her client;
- Is proactive and initiates recommendations;
- Focuses on the client relationship;
- Understands the importance of clear communication; and
- Understands the business side of the client relationship.

Thanks to all of you for your support in making 1997 our best year yet!

Have a great holiday season and a Happy and Healthy New Year!■

Year End Review

(Continued from page 1)

Some plans such as pre-tax medical reimbursement or Section 125 (Cafeteria) plans can affect your retirement program. These plans change an employee's taxable compensation and therefore affect plan contribution limits, deduction limits and benefits. Be sure your advisors are aware of any new benefit plans.

Remember to cap 401(k) deferral contributions at $9,500. This is the maximum dollar amount an employee can have withheld for the 1997 calendar year. This annual limit also applies even if your plan is not on a calendar year basis. If you use an outside payroll service to monitor this limit, be sure their calculations are correct. The earlier you catch an error, the easier it is to fix.

Don't forget to pass out Summary Plan Descriptions (SPDs) as well as enrollment and beneficiary designation forms to newly eligible participants. Since you are required to distribute these documents, it's an excellent opportunity to help create awareness, appreciation and understanding of the company's retirement plan.

This is also a good time to review your investments. Even if investment returns have been good, you want to be sure you're following the plan's investment policy. If you have assets in the plan which are difficult to value, such as real estate or limited partnerships, now is the time to begin the valuation process.

"Did you start any new employee benefit programs in 1997?"

Be sure any required minimum distributions have been made to those who are 70½ prior to year end. The new law allows participants other than 5% owners to postpone receipt of minimum distributions until they actually stop working. However, this law does not apply to anyone who was already in pay status at the end of 1996. Once your plan is amended to make minimum distributions at age 70 ½ an optional form of benefit, non-owner participants may elect to discontinue receiving minimum distributions.

Finally, remember that Forms 1099-R must be issued to **all** participants who received distributions from the plan in 1997. This requirement applies to distributions which were transferred to an IRA or another employer plan, as well as cash distributions. If cash distributions were made, Form 945 must also be completed to report taxes withheld from plan

Questions to Ask Yourself

Many publications suggest questions to ask retirement plan service and product providers about their services, fees and expertise, but rarely do they tell you the questions you need to ask yourself. If you examine your needs before you examine potential providers, you'll know what questions to ask and what the answers should be. Here is a list of questions to help get you started.

What do I want to accomplish with my retirement plan?
This is the most important question. Are you hoping to recruit skilled workers? Do you want to reward your valuable employees? Are you looking to maximize contributions? Are you trying to prepare for your approaching retirement? These are big questions and your answers will determine the type of plan you should choose and the services you need.

Who do I want to benefit the most?
Who do you want to receive the bulk of plan contributions? Is there a small group of key executives you're targeting or do you want contributions evenly spread across the entire company? If you're trying to put the maximum into your account while spending the least for other employees, your needs will be very different from someone who wants to spread benefits among rank and file employees.

What am I willing to pay?
In addition to funding the plan, you must also consider expenses for the services associated with administration. Keep in mind that the more "bells and whistles" you have, the higher the cost. It's important not to pay for services you don't need.

How much time are my staff and I willing to spend working on the plan?
This can affect the type of plan you choose. Some plan designs and features require more attention than others.

What's best for my company?
Too often plan designs and features are selected because of what's "hot" - not because of what's best for the employees and employers. Don't accept a plan designed to fit someone else's needs; get one that fits yours.

Once these questions are answered, you'll know where you're headed and what you need in order to get there. Give us a call so we can help you custom design a retirement program that fits your needs and objectives.■

Published by:
Swerdlin & Company
Building B, Suite 170
5901 Peachtree Dunwoody Road
Atlanta, Georgia 30328
(770) 396-6601
Facsimile:
(770) 698-9335
e-mail:
swerdlin@mindspring.com

Newsletter Committee:
Chairman:
Carol Friend
Contributors:
Julie Isom
Sandra Kerby
Adam Pozek
Dorn Swerdlin
Joanne Swerdlin
Layout & Design:
Stephanie Davis

Vision Statement

We strive for financial strength for our clients, our employees and our company by caring to be the best. We are committed to being the leading pension consulting firm in our market. We achieve this through cooperative teamwork, community building and continuous learning and development.

Mission Statement

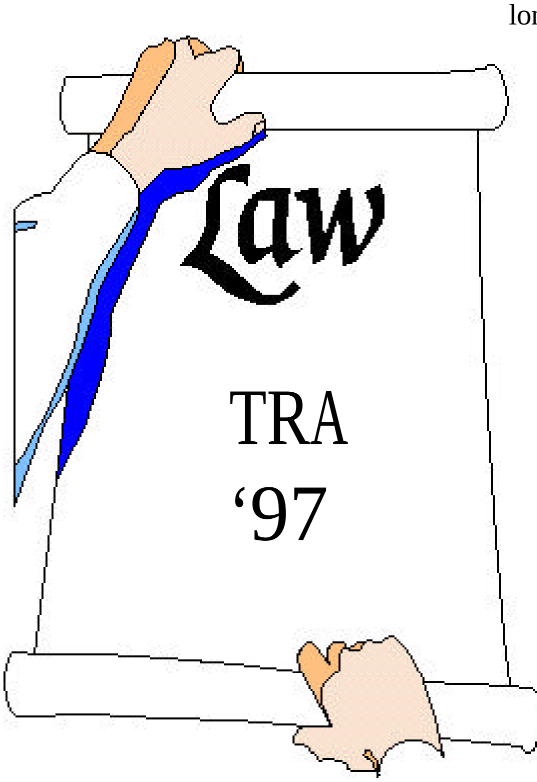
We focus primarily on design and administration of qualified retirement plans. Our mission is to develop relationships with our clients, our employees and our community so that all parties grow and develop financially and otherwise.

Taxpayer Relief Act of 1997 (TRA '97)

We highlight below some changes resulting from TRA '97 which will make it easier to administer your retirement plan.

Elimination of Excess Distribution Tax. The 15% tax on large plan distributions and excess retirement accumulations has been permanently repealed. Previously, this tax was suspended through 1999. (Effective for distributions made after 12/31/96)

Cash-Out Benefits. A qualified retirement plan can now pay a participant his account balance or lump sum without the participant's (or spouse's) consent if the value of the benefit is $5,000 or less. Previously the limit was set at $3,500 or less. (Effective for plan years beginning after 8/5/97)



Increase in Current Liability Full Funding Limit. The full funding percentage limit for defined benefit pension plans has increased from the current 150% to 155% for plan years beginning in 1999 or 2000, with increases in subsequent years to 170% for plan years beginning in 2005 or later. (Effective for plan years beginning after 12/31/98)

Acceptance of Rollovers Clarified. Plan sponsors are not required to get a copy of a determination letter from a participant's former employer before accepting a rollover. Even if it is later determined that the distribution was not eligible for rollover, the tax-deferred status of the plan will not be jeopardized. (Effective on 8/5/97)

Matching Contributions for Self-Employed. Matching contributions to 401(k) plans made on behalf of self-employed individuals will no longer be considered for purposes the limit on elective ntributions. In 1997 the limit is ,500. (Effective for plan years :er 12/31/97)

ew Technologies Guidance. ie Treasury and Labor epartments are charged with oviding guidance on the use of ew technologies (such as mail) concerning notice, onsent, disclosure and time equirements.

xception to 10% Tax on Nondeductible Contributions. The 10% tax on nondeductible contributions will not apply if you exceed the deduction limit on employee 401(k) deferrals and employer match. (Effective for tax years after 12/31/97)

Diversification of 401(k) Investments. Employers can no longer require employees to invest more than 10% of their 401(k) funds in company stock. However, employees are allowed to voluntarily exceed this limit. (Effective for plan years after 12/31/98)

Cost of Living Adjustment. The deferral limit for SIMPLE 401(k) plans has been amended so that it will be adjusted for inflation. This amendment corrected an oversight in the drafting of the Small Business Job Protection Act. The 1997 deferral limit for a SIMPLE 401(k) plan is $6,000. (Effective for tax years after 12/31/96)

Department of Labor Disclosure. Plan sponsors are no longer required to submit copies of the Summary Plan Description (SPD) and any Summary Material Modifications (SMM) to the Department of Labor. However, SPDs and SMMs must still be prepared and given to participants in your employee benefit plan. They must also be available should the Department of Labor request a copy. (Effective on 8/5/97)

This is a brief outline of some of the retirement plan changes included in the new law. The full text of the law is on the Internet at http://rs9.loc.gov/home/thomas.html. Look up H.R.2014. As always, if you have questions, give us a call.■

The New IRAs

TRA '97 provides significant tax saving opportunities. In addition to pension-related provisions discussed in our article on page 4, TRA '97 also includes enhancements to Individual Retirement Arrangements/Accounts (IRAs), effective on January 1, 1998.

Prior to TRA '97, deductible contributions to traditional IRAs were phased out for married (filing jointly) couples earning more than $40,000 and single individuals earning more than $25,000. The new law gradually increases these limits over the next 10 years to $80,000 for married taxpayers and $50,000 for single taxpayers. The new law also discontinues the 10% early withdrawal penalty for certain expenses such as education or purchase/restoration of a principal residence.

TRA '97 also establishes two new types of IRAs - the Roth IRA and the Education IRA.

Roth IRA

The Roth IRA is a new idea in retirement savings. Unlike traditional IRAs, you don't get an income tax deduction for your contributions. Instead, you get to take tax-free withdrawals from the Roth IRA.

The more time you have until retirement, the greater the advantage of a Roth IRA over a traditional IRA. When you start saving early in your career, you use the power of compound returns and the time value of money to build up your nest egg. As time passes, investment earnings make up a larger portion of your account than your actual investment. The following example demonstrates the advantage of this new kind of IRA.

If you save $2,000 each year in a Roth IRA for the next thirty years and it earns 10% annually, by the end of the period you will have $328,988. Your account grew $268,988 ($328,988 less $60,000 in contributions). That's $268,988 of entirely tax-free income. In a traditional IRA, you would have the same $328,988 after thirty years, but you would have to pay taxes on the full amount when you withdraw the money. As you can see, the advantage for long-term savers is substantial. The longer you save with a Roth IRA, the more you save in taxes.

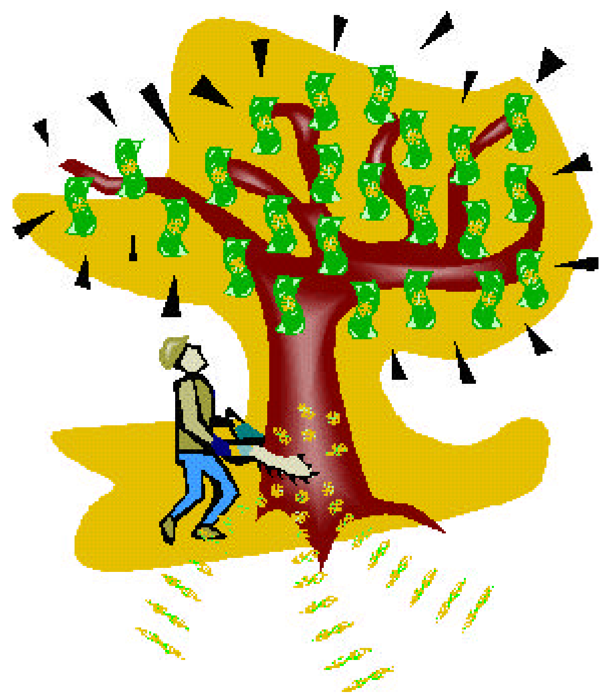
You also have the opportunity to convert your traditional IRA into a Roth IRA. However, you will first have to pay taxes on the current value of the account. You have four years to pay the tax bill (if you convert before the end of 1998) and there is no early withdrawal penalty. Although you have a large tax bill to pay now, it may still be worthwhile if you have a long time before retirement.

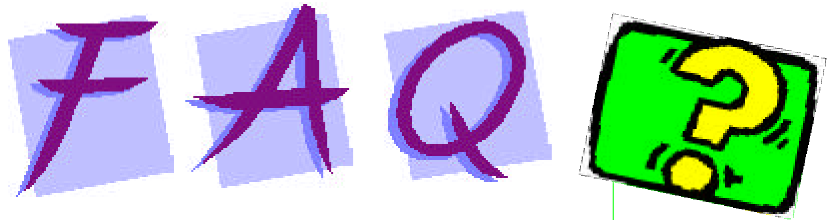
You can contribute to a Roth IRA even if you or your spouse are covered by a pension plan. You can begin making tax-free withdrawals after you have had the Roth IRA for five years and have reached age 59½. You can also make withdrawals for the purchase of your first home or in the case of death or disability.

Education IRA

The Education IRA is an account set up to help pay expenses for higher education for a child, grandchild or other designated beneficiary. Contributions of up to $500 per year (in addition to the $2,000 limit for other IRAs) can be made for each beneficiary until he or she reaches age 18. Like the Roth IRA, all contributions are made with after-tax dollars, and there is no income tax on qualified distributions. However, any withdrawals that exceed actual qualified education expenses are subject to regular income tax and a 10% penalty.

Income limitations for both new IRAs begin at $95,000 for a single person or $150,000 if married. For more information or to find out if these new options are suitable for your individual circumstances, please consult your tax advisor.■





Frequently Asked Questions

Q We are in the process of hiring a new vice president to head one of our departments. During negotiations with the final candidate, our retirement plan became a major sticking point. Because of the plan's entry requirements, she cannot join our plan for almost a year and a half. This new executive is very talented and we want to do all we can to recruit and retain her. Can we waive the normal entry requirements for this person?

A No, you cannot waive the entry requirements for this individual. Failing to operate the plan according to its provisions is a disqualifying issue. If you ignore the plan's rules for this one person, you jeopardize the tax deferred benefits for all employees.

We do not recommend changing plan provisions to suit one person. However, if your plan isn't meeting your needs, maybe it's time to consider changes to the plan. You can allow employees to roll over their benefits from another plan before they become eligible to enter your plan. You can add a 401(k) provision with a shorter waiting period, while still retaining the longer eligibility for the employer contributions. If you're having trouble recruiting and retaining executives, you can set up a separate, non-qualified plan to attract these people.

Always be careful the changes you make to the plan do not benefit only the highly paid employees, or you can raise discrimination issues.

Q Must I take salary deferral contributions from an employee's severance pay?

A Yes, but only if the pay is reported as W-2 income.

Q Why didn't my account earn the same percentage reported in the newspaper? The paper said the fund earned 8% but my account only went up 6½%. What happened to the other 1½%?

A First of all, your money has not been in the account for the whole year. The money you contributed in the first month was invested for the entire year, the money you contributed in the second month was invested for eleven months, and so on. Your results won't match the results shown in the newspaper because it is assumed your money was in the fund on January 1. The newspaper results also assume that the fund had no transactions during the year.

Plan expense is another reason your results may differ. To some extent, all participants share in the cost of running the 401(k) plan, and these expenses will make your rate of return different from that shown in the paper.

Q I heard that the Small Business Job Protection Act said I no longer had to make minimum distributions to participants over 70 ½. Is that correct?

A The Act has changed the requirements for minimum distributions. However, your plan first must be amended to change this from a requirement to an option. Once the amendment is in place, participants who are receiving payments can elect to stop, and participants who attain age 70 ½ after the amendment date will have to request payment; it will no longer be automatic. If you did not make minimum distributions because you thought they were no longer required, the IRS has provided relief for distributions missed during the transition. For participants who should have received a distribution between August 20, 1996 and December 31, 1997, the IRS deadline for making the payment is December 31, 1997.■

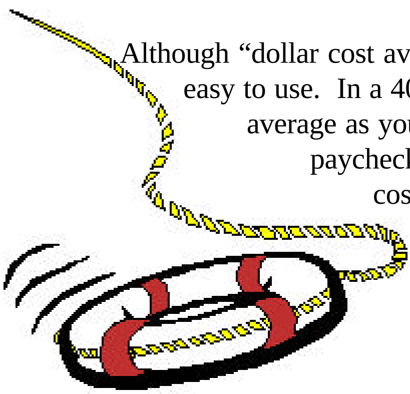
Dollar Cost Averaging?

Last quarter we examined two often overlooked and misunderstood concepts; inflation and the time value of money. This quarter we will look at another investment “buzz-word” - dollar cost averaging.

Simply put, dollar cost averaging seeks to reduce the average cost per share by investing similar dollar amounts at regular intervals (weekly, monthly, etc.). When the cost per share goes down, you purchase more shares. Conversely, when the cost goes up, you purchase fewer shares. This results in a lower average cost per share. The following table illustrates the advantages of dollar cost averaging:

	Cost Per Share	John Invested ($)	John # Shares	Jane Invested ($)	Jane # Shares
January 1	$5.00	$1,200.00	240	$300.00	60
April 1	$2.50	$0.00	0	$300.00	120
July 1	$4.00	$0.00	0	$300.00	75
October 1	$2.50	$0.00	0	$300.00	120
December 31	$5.00	$0.00	0	$0.00	0
	Total	**$1,200.00**	**240**	**$1,200.00**	**375**
Average Cost Per Share		**$5.00**		**$3.20**	
Market Value (# Shares x 12/31 Price)		**$1,200.00**		**$1,875.00**	

Both John and Jane put the same amount of money in the same investment. John invested his full $1,200 on January 1, while Jane invested $300 at the beginning of each quarter. By dollar cost averaging her money, Jane was able to take advantage of market fluctuations and earn $675 or 56.25% on her investment. John just broke even.



Although “dollar cost averaging” may sound complicated, it is very easy to use. In a 401(k) plan, you automatically dollar cost average as you defer the same amount from each paycheck into the plan. You can also employ dollar cost averaging for your personal nest egg through automatic bank drafts into your savings or brokerage account.

Dollar cost averaging also frees you from the impossible task of correctly timing the market.

Past performance does not guarantee future results. For specific advice, consult your investment advisor.■

Swerdlin & Company

We can help you with the following services:

- Actuarial Consulting
- Plan Consulting and Design
- Plan Installation
- Annual Administration
- Employee Communication
- Regulatory Compliance
- Educational Presentations
- Special Studies

We are dedicated to making your employee benefit program a tool for reaching your organizational goals.

We provide services for:

- Profit Sharing Plans
- 401(k) Plans
- Money Purchase Plans
- Target Benefit Plans
- Defined Benefit Plans
- ESOPs
- Age-Weighted Plans
- New Comparability (Cross-Tested Plans)
- TSAs/403(b)/457 Plans
- Comprehensive Employee Benefit Statements
- Supplemental Executive Programs.

Give us a call to discuss how we can help you make the most of your employee benefit program.

Swerdlin & Company
Building B, Suite 170
5901 Peachtree Dunwoody Road
Atlanta, Georgia 30328
(770) 396-6601
Facsimile:
(770) 698-9335
e-mail:
swerdlin@mindspring.com

Where In The World (Wide Web)

This quarter we look at the online versions of several of the country's leading print publications and preview an upcoming site which will be of great interest to everyone.

www.ecommunications.com/index.html
Employee Benefit News is one of the premiere employee benefit publications. While you must be a subscriber to access all of this site's features, there are a number of free options available.

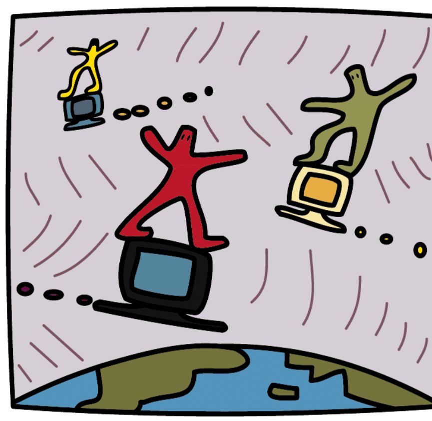
- Newswatch examines current benefits-related news and events.
- Trendletter looks at current trends in the employee benefits industry.
- The Benefits Glossary defines many frequently used terms and phrases related to employee benefit plans.

www.bcsolutionsmag.com
Benefits & Compensation Solutions is a publication that covers the entire range of Human Resources and benefits, including retirement plans, health plans, vacation, flexible spending accounts, etc. There are regular columns on benefits related technology and legal affairs. Articles from all 1997 issues of the magazine are available for reference. They even offer the opportunity to sign up online for a free 6 month print subscription.

www.worth.com
Worth Magazine is more of an overall financial publication. In addition to regular investment advice, this site offers other features including a free e-mail newsletter, a consumer help page and links to other investment resources on the web. Peter Lynch writes a regular column for Worth Magazine, and the web site includes a searchable archive of all of his articles.

While we have researched each of these web pages, we neither endorse any products or services offered, nor do we make any claims as to their validity, accuracy or appropriateness.■

Swerdlin & Company is joining the World Wide Web craze. We will soon have our web page up and running. It will contain information about our services and links to helpful information in the employee benefits field. The Swerdlin Quarterly will also be posted.



As a service to our clients, we will have a links page to the web sites of our clients. If you are interested in being on our links page, please e-mail Stephanie Davis, sdavis@swerdlin.net, and provide us with your web address and a one to two sentence description of your company.

1998 Qualified Plan Limits

The following table summarizes the various limits affecting qualified plans for plan years beginning on or after January 1, 1998. We will be sending out our quick-reference plan limit cards soon.■

	1996	1997	1998
Maximum Annual Benefit (DB)	$120,000	$125,000	$130,000
Maximum Annual Addition (DC)	$30,000	$30,000	$30,000
401(k) Elective Deferral	$9,500	$9,500	$10,000
457 Deferral	$7,500	$7,500	$8,000
Compensation Limit	$150,000	$160,000	$160,000
Highly Compensated Employee	$66,000	$80,000	$80,000
Officer Compensation	$60,000	N/A	N/A
Social Security Wage Base	$62,700	$65,400	$68,400