Swerdlin & Company
Actuaries ■ Employee Benefit Consultants

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Dorn's Corner

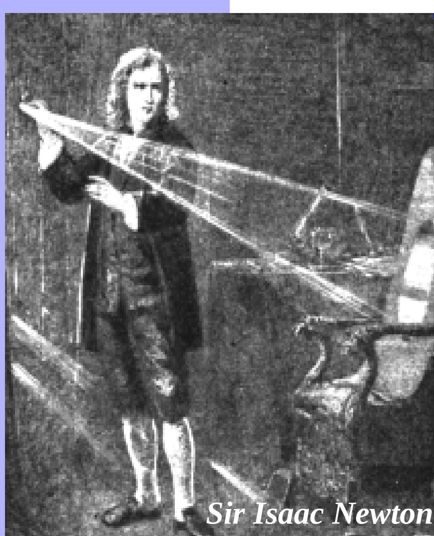
I mentioned in a previous Dorn's Corner that I am involved in a leadership program run by an organization called "Center for Authentic Leadership." At a recent weekend meeting, I learned something about myself that I would like to share.

It has to do with the concept of Abundance (or Affluence) vs. Scarcity. When scarcity is the underlying belief, then all sorts of problems are manifest. Wars, hunger, starvation and poverty arise from a scarcity state of mind. If we all believe that "there is enough" we would have no wars and no poverty.

In an earlier Dorn's Corner, I compared "Newtonian Thinking" with "Quantum Thinking." Scarcity is inherent in Newtonian Thinking. In the mechanical world of Newton everything is fixed and there is only a limited amount of "stuff" to go around. The Quantum world, however, contains infinite possibilities which are manifest by the simple process of observing out of our consciousness. We are limited only by our imagination.

Now, what did I learn at my seminar weekend? I learned that my stand for abundance or affluence for everyone may have stemmed from events in my childhood when I felt the fear of scarcity, or when I felt I would not have enough. Maybe what we want in our lives relates to something we missed as a child.

Abundance is real; scarcity is a fear-based illusion. The choice is yours.■


Sir Isaac Newton

Who Can't Afford to Save 5%?

Do your participants say they can't afford to save money for retirement? Is deferring 5% or 10% of their income too much to save?

If they can't live on 90% or 95% of what they currently earn, how are they going to get by on 42% of that in the future? Social Security replaces only 42% of an average worker's earnings. The average benefit paid to retired workers is only $780 a month. Assuming Social Security is still around, can your participants retire on $9,360 a year?

If you think 42% of current income is a low number, try 32%. If an employee's earnings meet or exceed the Social Security wage base, Social Security will replace only 32% of salary or less.

If your participants can't afford to save, they can't afford to retire. The majority of retirement income must come from personal savings. Educate your participants. Help them to understand that by following the steps below they can build a comfortable retirement:

1. Start saving as early as possible.
2. Start saving a small amount and slowly increase it.
3. Take advantage of the 401(k) plan.
4. Save the next raise.
5. Follow a budget.

It is critical that your participants understand the importance of saving now for their future. You or your participants can learn more about Social Security by logging on to their web site at www.ssa.gov. You can find out about the different benefits provided by Social Security (retirement, disability, and survivors benefits), order publications, and fill out a form to get a personal earnings and benefits estimate.■

In This Issue . . .

S&C

Our Client of the Quarter

featuring

families first®
Making Families Last

We're proud to present Families First, our featured client for the quarter. We provide the administration for their 403(b) and money purchase pension plans.

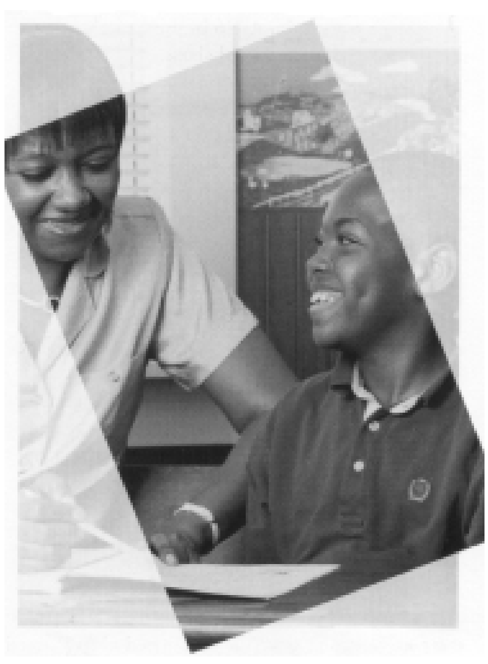
Families First addresses the full range of needs for families and children in crisis. They focus on what can be done now to rebuild lives and relationships in hope that the future will be brighter for individuals, families and the communities they all share.

Supporters of Families First represent a long, rich heritage of Atlantans who have met the problems of children and families in heroic, life-changing ways. This heritage dates back to 1890.

Through mergers and name-changes spanning 109 years, Families First now extends their services to more than 90,000 people a year in 12 counties of Metro Atlanta. There are thousands of stories of remarkable results: homes saved, directions changed, hope renewed, lives and families revitalized.

Parents, even if they are teenagers, must take responsibility for giving their child a life of promise. From Families First, pregnant teens receive comprehensive counseling and access to prenatal and postnatal care. Families First operates a group home for young pregnant women and transitional housing for new mothers who otherwise would be homeless. By providing education in parenting, family planning, and career planning, Families First helps young women and men accept the obligations of creating a stable, nurturing family.

Their goal is to keep a family intact - but when a child is abused or neglected, Families First provides highly skilled foster care using their own carefully screened and trained foster parents. Each child is closely monitored by a Families First caseworker. For adolescents, Families First operates group foster homes where young people are taught to achieve successful independence.



Far-sighted Atlantans have enabled and encouraged Families First's work for more than a century. With a staff of 125 dedicated individuals, Families First brings high standards of professional and personal commitment to their mission.

When a troubled family becomes whole and strong, the impact often endures over a lifetime. The services made possible by Families First help to rebuild lives and relationships. With everyone's help, Families First is making families last.■

PBGC Changes for 1999

The Pension Benefit Guaranty Corporation (PBGC) is a government entity that insures the retirement benefits of millions of participants in defined benefit pension plans. They administer a mandated insurance program that is funded through premiums paid by defined benefit plan sponsors.

The PBGC was established under the Employee Retirement Income Security Act of 1974 (ERISA) and now protects the benefits of about 42 million workers in 45,000 defined benefit plans. They pay benefits to 206,000 retirees who might not have received their retirement benefits had the PBGC not insured their future. Most plan sponsors fund their retirement programs, but it's nice to know that when they are unable to do so, the PBGC is there to back them up.

The PBGC made two important changes for 1999:

1

The maximum monthly benefit guaranteed by the Pension Benefit Guaranty Corporation (PBGC) increases to $3,051.14 in 1999, up from $2,880.68 in 1998. That's a maximum annual benefit of $36,613.68.

2

The PBGC is allowing more time to file the insurance premium forms. The new deadline coincides with the last date to file the IRS Form 5500, or nine and a half months after the plan year end. The change is effective beginning with the 1999 plan year.■

Keeping it Fair

Although contributions can be legally designed to favor the higher paid participants, other aspects of the plan cannot. These provisions, called "benefits, rights, and features" must be available to all participants.

For example:

- All participants must be provided the same access to the same types of investments.
- Brokerage accounts with high minimum balance requirements can be considered discriminatory and not allowed.
- The terms of loans must be the same; that is, owners cannot receive a lower interest rate than other participants.
- Everyone must have the same distribution options.

The list goes on and on. Before you add or change a benefit, right, or feature, you should ask your administrator and/or attorney to ensure its legality.■

Fixing a Plan

As diligent as you and your service providers may be, there can still be an occasional error. While coordinating the plan document, the operation of the plan and the many applicable regulations, mistakes can happen. The IRS recognizes this and provides several methods of correction. The programs range from self-correction to negotiations with the IRS to fix the problems and pay any penalties.

For example: your plan has 80 participants, and during the year 12 of them receive distributions after terminating their employment. A few months later you find that the vesting percentages were calculated incorrectly.

Under self-correction, if the following criteria are met, there would be no penalties or taxes due:

- The number of participants affected (15%) is considered insignificant (keep in mind that a larger percentage may require a different correction program)
- Correction is made within 2 plan years
- Written procedures are in place to prevent future occurrences
- The plan has a current determination letter

If you suspect your plan has an issue that needs correcting, please give us a call.■

What's Happenin'

We had several promotions last quarter, so please join us in congratulating:

Kim Hall
Pension Assistant
Julie Isom
Pension Consultant
Sue deLeon
Network Support Specialist
Nancy McMurtrie
Conversion Specialist
Karen Miracle
Defined Contribution Manager
Trey Stephens
Pension Administrator

Some of our employees are continuing their education while working. Jennifer Krebs graduated in December with an MBA in Marketing, and Stephanie Davis (who does the layout and artwork for this newsletter) made Dean's List for the last semester.

Welcome to (see photo below, from left to right) Fariba Kharazmi, Administrative Assistant; Cynthia Navan, Accounting Assistant; Lee Swerdlin, Assistant Conversion Specialist (yes, Lee is the son of Dorn and Joanne Swerdlin); and Carol Jordan, Implementation Specialist on the Daily Team. Welcome also to Cathy Philp, our new receptionist (not pictured).■

Inexpensive Ways to Improve Your Retirement Plan

- **Get what you have already paid for.** Do you have mutual funds in your plans? Most mutual fund companies offer free literature on retirement planning and investing. Call them or visit their web site to obtain these materials, then hand them out to your employees.
- **Use your broker.** Do you work with an investment broker or advisor regarding your plan's assets? Get them involved. Ask them to meet with employees, give investment seminars or provide information for your company newsletter.
- **Publicize your contribution.** Make sure your employees know how much the company contributes to the profit sharing or pension plan. After all, if they don't know the value of the benefit, they can't appreciate it.
- **Have enrollment parties.** Instead of having your usual enrollment meeting, have a party. Food, music and decorations draw a larger crowd and get people excited.
- **Avoid jargon.** Make sure the materials you use to explain your plan are easy to understand and avoid technical terms.
- **Let the participants pay for extras.** If a small group of employees asks to add a feature to your plan, make them pay for it. Plan loans and participant-directed investments cost money.
- **Review your plan design.** Work with your plan service providers to be sure your plan is right for your company. Since the law is always changing, you might find new features to enhance the benefits of your plan. Don't overlook these opportunities.
- **Get employees involved.** Include employee representatives on your retirement plan committee. Ask what they like and don't like about the plan. Let them know their opinion counts.
- **Write down your goals.** Measure and track your goals. It's easier to make decisions concerning the plan when you measure and track your goals.■

FAQ

Few topics generate as many questions as participant loans. The rules can be complex, and if not handled properly, can result in a taxable event for the participant. Here are some of the most common questions and answers about plan loans.

Q *Do participant loans need to be repaid?*

A Yes, participant loans must be repaid. Payments must be made no less than every quarter. Unless the loan is for a principal residence, it must be entirely repaid within five years.

Q *How much can a participant borrow from the plan?*

A Generally the maximum available for a loan is 50% of a participant's vested benefit, but no more than $50,000 (this amount is reduced if the participant has prior loans outstanding during the year).

Q *What if a participant receives a loan that is larger than allowed?*

A The portion of the loan that exceeds the maximum is immediately taxable to the participant. The entire loan, including the taxed portion, must be repaid to the plan.

Q *What if a participant fails to pay back the loan?*

A If a participant fails to pay back a loan, it becomes a deemed distribution. The outstanding loan balance becomes taxable to the participant and is subject to normal income taxes and penalties.

Q *Does the plan need to charge interest on loans to participants?*

A Yes, the plan must charge a reasonable rate of interest. The interest rate should be comparable to what the participant would pay if the money was borrowed outside the plan.

Q *What happens to a loan if a participant goes on a leave of absence?*

A During a qualified leave of absence, loan payments can be suspended for as long as one year.

Q *Do all plans allow participant loans?*

A No, many plans do not allow loans. Before issuing a loan, be sure it is permitted by your plan document, and you have a written loan procedure.■

Swerdlin & Company Green Team:

(left to right)
Sandra Kerby, JoAnne McCurdy, Carol Friend, Kathy Sanders