Swerdlin & Company
Actuaries ■ Employee Benefit Consultants

The Swerdlin Quarterly

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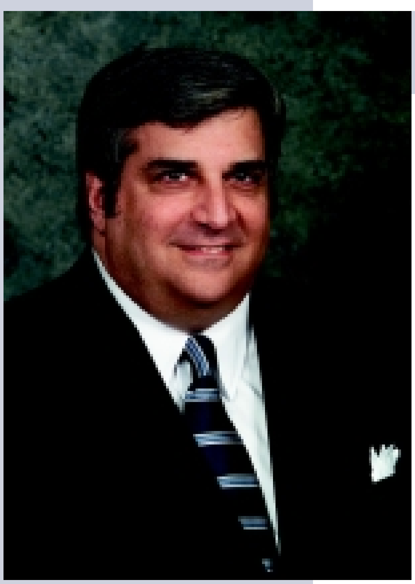
Update on 99 Form 5500

The IRS has made major changes to the 5500 series of forms, effective for plan years beginning in 1999. We'll be sending out an annoucement to our clients shortly to provide further details.■

Dorn's Corner

Year 2000 is special to everyone, but it's extra special to us at Swerdlin & Company, since it's our 20th anniversary. We started our firm April 1, 1980 with 2.5 employees, a filing cabinet, and 1 typewriter. As of February 2000, we have 46 employees, a whole file room, 56 computers, but still only 1 typewriter!

Look on page 5 to see what I think is an amusing comparison of 1980 with 2000.



The Benefits of Age

Good things come with age: wisdom, insight and age-weighted profit sharing plans. Typically, defined benefit plans were considered the only way to provide a decent benefit to older employees through a retirement plan. However, defined benefit plans can often be expensive to maintain. Age-weighted profit sharing plans are a reasonable alternative to defined benefit plans, especially for small employers. These plans also offer more flexibility than money purchase pension plans because the contribution is still discretionary and is allocated on the basis of age rather than compensation level.

If you're a small business owner close to retirement, you may want to consider an age-weighted profit sharing plan. These plans combine the flexibility of the traditional profit sharing plan with the ability to provide greater benefits to those participants closest to retirement. As the name implies, the contribution is weighted in favor of the older participants.

How do these plans work? An age-weighted plan accounts for the time value of money. Contributions are

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In This Issue . . .

Thompson Engineering

We are proud to present Thompson Engineering, our Featured Client of the Quarter. Thompson Engineering has been a client of ours for several years. We provide administrative services for their Employee Stock Ownership Plan (ESOP) and 401(k) plan. We've seen tremendous growth in their company since we started working with them. They've told us they feel the ESOP has contributed to their growth and success.

The 47 year old Mobile, Alabama firm has become one of the Southeast's largest engineering companies. Once just a small testing lab in Mobile, the employee-owned company has more than tripled its work force and quadrupled revenues in the past six years. Last year alone, the company added 65 workers to its ranks.

Founded in 1953, Thompson has six offices and does business in twenty-six states, Central America, Asia and the lower Pacific Rim.

The company has been the lead engineer on several industrial, commercial and municipal projects. The company was the lead site engineer for the Tuscaloosa Steel plant on McDuffie Island, an iron processing plant that had been built in Scotland 20 years ago, mothballed, and then later dismantled and shipped to Mobile to be put back together in 1996.

Thompson also worked with other firms and contractors on a new foundation design for the state Capitol in Montgomery, allowing it to be connected to new legislative chambers by an underground tunnel.

Thompson has used its waterfront experience as part of its work with the nation's top 10 casino and entertainment companies. It tapped its background in the offshore drilling industry to come up with a unique design for the Beau Rivage casino in Biloxi, a seemingly land-based structure that actually floats, ensuring compliance with Mississippi gaming laws. It's a sea-anchored, semi-submersible barge structure - the largest in the world! ■

Henry Seawell, President/CEO of Thompson Engineering

To Loan or Not to Loan

Your plan may allow participants to borrow money from their accounts. Unfortunately, participants may confuse the plan with the local lending institution and frequently request small loans. Processing loans takes a lot of time and is administratively expensive. So, what can you do?

Loan provisions are not considered protected benefits so you can eliminate them or change the loan policy at any time. Just be sure that plan or policy changes don't become discriminatory. For example, it would be discriminatory if only the company owner could take advantage of the loan provision.

An alternative to eliminating the loan provision is to require a minimum loan amount. The "safe harbor" minimum is $1,000. Most plans limit a loan to 50% of the participant's vested balance which eliminates a lot of small loans. Also, you can limit participants to one outstanding loan at a time and limit loans to financial hardship.

Employees may be upset if you remove the loan feature entirely, but ultimately it's in their best interest. Any withdrawals from a retirement account threaten the participant's ability to save. Although participants are paying themselves back with interest, loans are repaid with after-tax dollars. In order to repay the loan, the participant may be unable to continue deferrals and, therefore, not in a financial position to add new money towards their retirement.

If a loan is outstanding when someone leaves employment, it becomes taxable if not immediately repaid. Depending on their age, employees may incur a penalty on top of normal income taxes. They could end up owing almost 50% of the outstanding loan in additional taxes.■

Swerdin & Company Marketing Team

From left to right:
Lee Swerdlin, Laura Matlock, Joanne Swerdlin, Stephanie Davis, and Glenda Devechio.

Relief From Premium Penalties

In a regulatory change, the Pension Benefit Guaranty Corporation (PBGC) is expanding the circumstances under which pension plans can qualify for relief from premium payment penalties. "This is part of our continuing effort to improve our customer service," said PBGC Executive Director David M. Strauss. "We are making it easier for our premium payers to qualify for 'safe-harbor' relief from the late payment penalty charges that may apply to estimated premium payments."

Under this amendment, the PBGC allows plan administrators to rely on the participant count reported on the previous year's premium payment form, even if they or the PBGC later find the count is incorrect. Currently, if the estimated premium payment is based on an incorrect participant count for the prior year's payment, PBGC may impose a penalty for late payment. This relief applies only to penalty charges because, by law, the PBGC cannot waive interest on underpayments. The PBGC is providing safe-harbor relief for prior plan years to all PBGC determinations issued on or after December 26, 1999.

In addition to the safe-harbor relief, the amendments codify the PBGC's current penalty policy, which lowers penalties from 5% per month to 1% per month if a premium payer corrects an underpayment before notice is received from the PBGC. ■

S Corporation ESOPs

Effective January 1, 1998, corporations sponsoring Employee Stock Ownership Plans (ESOPs) became eligible to be treated as an S corporation for federal income tax purposes.

Generally, an S corporation doesn't pay federal income taxes. Instead, shareholders of an S corporation are subject to taxation.

With recent tax law changes, an ESOP can be an S corporation shareholder. However, an ESOP is a tax qualified retirement plan and is exempt from paying income tax. Therefore, both the ESOP and the S corporation are exempt from paying federal income tax. Only non-ESOP shareholders are subject to taxation.

As a participant in an S corporation ESOP, taxes are not due until a distribution is made. Then, the typical retirement plan distribution rules apply (i.e., distributions not rolled over to an IRA or another qualified retirement plan become part of an individual's taxable income).

An advantage like this is not without its limitations. Because an S corporation is limited to 75 shareholders (the ESOP counts as one), participant distributions should be limited to cash since anyone who holds stock outside of the trust is counted towards the limit.

Below are some limitations of S corporation ESOPs compared with C corporation ESOPs:

S corporation	C corporation
▪ no tax advantage for sale of shares to the ESOP by an individual	▪ tax advantaged sale of shares to the ESOP by an individual (Section 1042)
▪ contributions are limited to 15% of eligible compensation	▪ contributions can be made up to 25% of eligible compensation
▪ the contribution limit includes only principal paid on shares purchased with a loan	▪ the contribution limit includes principal and interest paid on shares purchased with a loan

Other advantages and limitations exist, and the conversion from a C corporation to an S corporation can be complicated. However, the tax advantages to the company may outweigh the limitations. A Tax/ ERISA attorney should be consulted to show you techniques to overcome some of the obstacles. If you are considering establishing or changing an ESOP, talk to us in the early stages. Studies can be performed and projections made to determine if an S corporation ESOP is feasible.■

What's Happenin'

We had two new babies this quarter, so please join us in congratulating both families.

Michael and Erica Miller's son, Noah, was born on December 17th.

Melodi and Derek Kline's daughter, Avery, was born on January 2nd.

Congratulations to Glenda Devechio on her promotion to Vice President of Swerdlin & Company. Glenda is a member of the Leadership Management Team and has been with us for almost five years.

Join us in welcoming four new employees this quarter. Mitch Conn joins the DayPak Team, where he is the Team Leader responsible for the daily transaction processing. Doris Hooks has joined our Accounting Team as Accounts Receivable/ Accounts Payable Assistant. Kimberly Mullis, a Senior Pension Administrator, has joined one of the Defined Contribution Teams. Rick Rothschild has joined our Network Support Team as Technology Assistant.■

Swerdin & Company Welcomes:

Back row (left to right):
Mitch Conn and Rick Rothschild,
Front row (left to right):
Kimberly Mullis and Doris Hooks.

The Benefits of Age

(Continued from page 1)

Comparison of Age-Weighted and Traditional Profit Sharing Contribution

Participant	Age	Pay	Age Weighted Contribution	% of Contribution	Traditional Contribution	% of Contribution
Owner A	50	$54,000	$13,070.71	69%	$6,641.17	35%
Employee B	40	$26,000	$2,915.03	15%	$3,197.60	17%
Employee C	30	$30,000	$1,557.97	8%	$3,689.54	19%
Employee D	25	$27,000	$954.30	5%	$3,320.59	18%
Employee E	21	$17,000	$441.65	3%	$2,090.76	11%

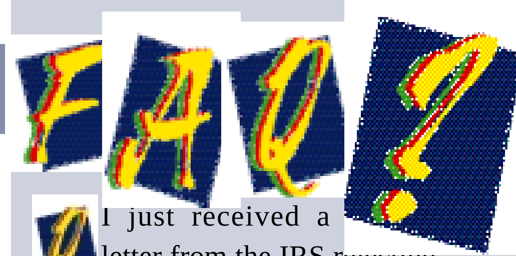
calculated based on providing all plan participants with the same benefit as a percentage of pay at retirement. These plans recognize a dollar today is worth more to a 25 year old than to a 45 year old. For example, assuming an 8% earnings factor, a $10 contribution for a 25 year old is worth $242.73 at age 65. The same $10 contribution for the 45 year old is only worth $49.27 at age 65.

Since younger employees have longer to fund their retirement, they receive smaller contributions over a longer period of time. The opposite is true for older employees; they receive larger contributions for a shorter period of time.■

Dorn's Corner Comparison

(Continued from page 1)

	1980	2000
Prime rate	over 20%	8.25%
President of USA	Southerner in his final year in office	Southerner in his final year in office
PC	Privileged Character	Personal Computer or Politically Correct
CD	Certificate of Deposit	Compact Disc
Fax machine	What's that?	Constantly out of paper
Phone on the road	Stop at a payphone	Cell phone
Internet	What a basketball does when a shot is made	world wide web
Message Taker	Secretary	Voice Mail
First class stamp	0.15	0.33
Bottle caps	Need a bottle opener	Twist off
Word processor	Typewriter	Word
Spreadsheet	Accountant's pad with columns	Excel
401(k) Recordkeeping	What's 401(k)?	Daily
Swerdlin & Company		
Employees	2.5	46
Office space	500 sq. ft.	over 13,000 sq. ft
My age	33	over 40



I just received a letter from the IRS rejecting my Form 5500. What should I do?

Don't panic - this happens frequently. One missing or misplaced answer can cause your return to be rejected. Sometimes the problem isn't your fault at all. A glitch at the IRS can cause your form to be rejected.

We often see the 5500 forms rejected by the IRS for some of the following reasons:

- Not signing the form
- Using the wrong tax ID number
- Missing attachments (e.g. audit report for plans with over 100 participants)
- Missing schedules (A, B, P, etc.)
- Asset information that doesn't balance
- Not answering all the required questions
- Filing the wrong form

If your form is rejected, send us the letter; we will respond on your behalf and provide you with a copy. That should close the matter, and in most cases satisfy the IRS.

One of our employees wants to roll over his money from his former employer's plan into ours. Is this allowed?

Generally, yes. Your plan will state if rollovers are permitted, and if they can be accepted from any employee or if the person has to be a participant in your plan. To protect the tax advantaged status of your plan, you should ask the administrator of the former plan for a letter stating that the money is eligible to be rolled over.

It is important to note that 70½ minimum distributions and after-tax dollars cannot be rolled over.■

Swerdlin & Company

Actuaries ▪ Employee Benefit Consultants

5901 Peachtree Dunwoody Road
Building B ▪ Suite 170
Atlanta, GA 30328

(770) 396-6601

www.swerdlin.net
info@swerdlin.net

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Give us a call to discuss how we can help you make the most of your employee benefit program.
(770) 396-6601

We can help you with the following services:

- Actuarial Consulting
- Plan Consulting and Design
- Plan Installation
- Annual Administration
- Daily Recordkeeping
- Repurchase Liability Studies
- 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 Plans (Cross-Tested)
- TSAs/403(b)/457 Plans
- Comprehensive Employee Benefit Statements
- Supplemental Executive Programs

Published by:

Swerdlin & Company
5901 Peachtree Dunwoody Road
Building B, Suite 170
(770) 396-6601
Fax: (770) 698-9335
newsletter@swerdlin.net
www.swerdlin.net

Newsletter Committee:

Chairman: Carol Friend
Contributors: Julie Isom, Michael Miller, Dorn Swerdlin and 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.