Employee Benefit Consultants

The Swerdlin Quarterly

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Dorn's Corner

Every year in the 4th quarter, I announce my declaration for the coming year. My declaration for 2002 is "Communication." Our efforts to improve communication are part of our Continuous Improvement program started this year. I want to talk about two aspects of communication:

- Listening
- Respecting Relationships

Listening

Last quarter I opened the discussion about listening and I continue it here. Although we are usually unaware of it, and when we are, we are not proud of it, we usually listen in order:

- To look good;
- To win;
- To be right;
- To judge; and
- To vote (i.e., I like this, I don't like that).

There is nothing wrong with this kind of listening and we all do it. However, it does limit our listening power.

A more effective way of listening is to:

- Listen to what you are thinking;
- Be aware of how you are listening;
- Be "open";
- Recognize that you don't know the whole story (therefore, you shouldn't judge without all the facts);

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Marching Orders for Plan Sponsors

The war on terrorism has made it necessary to call some of our citizens to active military duty. While serving our country, retirement benefits for these soldiers are protected by the Uniformed Services Employment and Re-employment Rights Act (USERRA). As a plan sponsor, you must ensure the rights and benefits of your participants who are called to serve.

When employees return from active duty, they are entitled to benefits they would have received had they remained continuously employed. Vesting and benefit accruals continue as if the participant worked for you during this period. Upon the soldier's return to work, you must credit his or her account with any company contributions and/or service missed during the time spent on active duty.

If you have a 401(k) plan, your participants are allowed to make up salary deferrals missed while on military service. Participants can make up missed savings over a period equal to the lesser of 5 years or the length of their military service times 3. For example, if a participant is active in the military for 12 months, he or she will have 36 months to make up any missed 401(k) contributions. If matching contributions were made to the plan, then you must also match these make-up contributions. Participants cannot suffer a reduction of benefits because of this required absence.

USERRA allows an employee to suspend repayment of any plan loans during a period of active service. If the employee elects to suspend loan payments while on active duty, the loan is not considered in default and is not considered a taxable distribution as long as the loan is repaid when the employee returns to work.

To comply with the requirements of USERRA, it's important you properly identify your employees who serve in the military. These brave men and women deserve all of the retirement benefits due them and much more.■

In This Issue . . .

Our Client of the Quarter

featuring

We're proud to present Houseworks, Ltd. as our featured Client of the Quarter. We've been providing recordkeeping and administrative services for their profit sharing and money purchase plans for over 10 years.

Houseworks, Ltd. has been in the miniature business over 25 years and its discount dollhouse and miniature suppliers divisions are among the world's largest. Houseworks, Ltd. is a wholly owned subsidiary of Benamy International, Inc., which was founded in May of 1974 by Mickey and Paul Benamy. During the first year of business, Benamy International imported welding consumables and craft supplies. In 1975, Houseworks, Ltd. was started as a separate company to develop and market dollhouses and miniatures for adult collectors.

Houseworks, Ltd. has five operating divisions:

- Houseworks Wholesale sells dollhouse and miniature building supplies and components to distributors and retailers worldwide.
- Houseworks Designs sells housewares, picture frames, and customized products to major retail operators.
- Houseworks Kid Workshop designs, sells, and distributes wood project kits to Home Depot for use in their Kids Workshop Program. Houseworks also designs and sells Wood Workshop kits to Toys R Us under the Home Depot brand.
- Hobby Builders Supply operates a discount mail order catalog and web site that sells dollhouses and miniature supplies to consumers worldwide (www.miniatures.com).
- House of Miniatures operates "Kit of the Month" clubs that feature miniature furniture kits and houses.

Since the 1990's, Houseworks has been about growth and recognition. In June of 1994, Houseworks acquired "House of Miniatures." In September of 1996, Shenandoah Miniatures, another miniature furniture kit marketer, was acquired. In 1997, Houseworks began working with Home Depot on their Kids Workshop Program, and to date, more than 6 million kits have been built in Home Depot Kids Workshops. This Home Depot relationship was instrumental in the Toys R Us relationship. In 2000, Houseworks was named Vendor of the Year by Toys R Us.

Houseworks, Ltd., located in Atlanta, employs 30 people. They base their success on treating each customer as if they were the first. At Houseworks, the customer is always top priority and that spirit is demonstrated in the work ethic of every employee. They all work as a team toward common goals of profitable and long-term relationships.

Since Mickey and Joan Benamy retired, their sons Dean and Paul Benamy and their daughter Brenda Lewis run the company.

Over the years, Houseworks, Ltd. has become known for its commitment to quality products and low prices. They go the extra mile to make any experience with them a positive one. ■

Determined To Be Active

If you sponsor a qualified retirement plan, simplified employee pension plan or tax-sheltered annuity, you must report Active Participants to the IRS annually on Form W-2. Federal, state and local governments that have plans must also report Active Participants. This status will affect whether or not an employee may make a deductible contribution to an IRA.

To report Active Participants, the Employer must check the box labeled "Pension Plan" on Form W-2. The IRS uses this information to determine if taxpayers are eligible for deductible contributions to IRAs and to confirm deductions are calculated correctly.

Who is an Active Participant? To identify them, you must apply different rules to different types of plans. The type and timing of the contribution are the key factors used to identify Active Participants. Participants are not considered “Active” if just earnings are allocated to their accounts.

Here is how to determine an Active Participant based on the type of plan you sponsor and the timing of contributions and forfeitures credited.

Money Purchase Pension Plans

A money purchase pension plan provides a guaranteed contribution to the accounts of individual participants each year. All eligible employees are Active Participants for the calendar year for which the contribution is allocated, no matter when the contribution is actually deposited into the plan account.

Example 1:

Ink, Inc. sponsors a money purchase pension plan. The contribution for the plan year ending June 30, 2000 is allocated to participants as of that date but is not deposited until the company files its corporate return on March 15, 2001. Each employee who is allocated a share of the June 30, 2000 contribution is considered an Active Participant for the individual's 2000 tax year.

Profit Sharing Plans

Profit sharing plans usually have a discretionary contribution formula and are not committed to making a contribution every year. All employees who receive a contribution or forfeiture are considered Active Participants. The participant is considered “Active” for the calendar year in which the contribution is actually deposited into the plan account or, if later, the date the contribution is allocated. If participants receive forfeitures they are considered “Active” for the tax year in which the forfeitures are allocated to their accounts. This is true even if no other contributions are deposited during the year.

Example 2:

Ink, Inc. sponsors a profit sharing plan. The contribution for the plan year ending December 31, 2000 is not deposited until February 15, 2001. Each employee who is allocated a share of the contribution is an Active Participant for the individual's 2001 tax year.

In this example, if forfeitures were allocated on December 31, 2000, the participants are considered Active Participants for both the 2000 and 2001 tax years.

Example 3:

Ink, Inc. sponsors a profit sharing plan and pre-funds the contribution by depositing 3% of eligible pay to the plan each month. The contribution for the plan year ending June 30, 2000 is allocated to participants on June 30. Each employee who is allocated a share of the contribution is an Active Participant for the 2000 tax year.

401(k) Plans

Because a 401(k) plan is a type of profit sharing plan, the rules are the same for determining Active Participants.

The one exception is for plan years in which only employee contributions are made. In this case, Active Participants are only those who elect to defer.

Defined Benefit Plans

A defined benefit plan guarantees a future retirement benefit. Contributions are made to the plan but not allocated to an individual participant. An employee who meets the eligibility requirements of the plan is an Active Participant. This is true whether the employee declines to participate in the plan or has failed to work the minimum hours of service to accrue benefits.

Plans With Life Insurance

Premiums paid from corporate assets for insurance policies in retirement plans are considered plan contributions. You must consider the dates of deposits when determining the status of an Active Participant.

As you can see, making the determination may not be as easy as you think, but a correct determination is important to both the participant and the IRS.■

Swerdlin & Company Employees Volunteer for Habitat for Humanity

From left to right: Kim Hall, Raye Suss, Jodi Burket and Susan Zhou.

Should You Add a 401(k)?

If you don't have a 401(k) plan, now may be the time to consider it. Some small and medium sized companies have not offered a 401(k) benefit because of company deduction limits, the difficulty in meeting IRS testing requirements, and other administrative burdens.

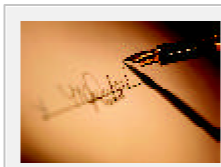
New retirement plan rules in EGTRRA (Economic Growth and Tax Relief Reconciliation Act of 2001) have dramatically increased the amount both an employer and an employee can contribute to a 401(k) plan. In 2002, an employee may defer up to $11,000. Also, beginning in 2002, an employee age 50 or older can defer a catch-up contribution of $1,000. That's a total of $12,000. This catch-up contribution increases $1,000 each year until 2006, when an employee over age 50 can contribute an additional $5,000 over the 401(k) annual limit.

In addition, as the employer, you can contribute as much as 25% of pay to the 401(k) plan and take it as a corporate tax deduction. Previously, the maximum an employer could contribute and deduct was 15% of pay (minus the employee 401(k) contributions). Under the new rules, a 50-year-old employee earning $100,000 can have as much as $37,000 added to his retirement account in 2002, (25% employer contribution; $11,000 401(k) contribution; and $1,000 catch-up contribution).

If you currently have a profit sharing plan and have hesitated to implement a 401(k) because of concerns over passing the nondiscrimination tests, a safe-harbor 401(k) may work for you. Your profit sharing contributions can be converted to a safe-harbor 401(k) contribution, allowing you to avoid certain nondiscrimination testing. Refunds of 401(k) deferrals should be eliminated or significantly reduced.

Some companies have not provided 401(k) benefits for their employees because of the administrative and recordkeeping requirements. When employees are offered the opportunity to manage the investment of their own accounts, the recordkeeping requirements can seem overwhelming. However, with advanced technology and the Internet, participants can manage their own 401(k) accounts very efficiently and design their retirement accounts to match their risk tolerance. This gives participants direct involvement in their retirement funds, resulting in an enhanced appreciation of the plan.

You can add a new 401(k) plan or amend your existing profit sharing plan to add a 401(k) feature. Now is a convenient time to make this change while your plan is being amended for EGTRRA. Call us for additional details on how the new 401(k) rules can benefit you and your employees.■



New Date For GUST Restatements

The IRS has extended the filing date for the restatement of custom designed plans from December 31, 2001 to February 28, 2002.

What's Happening

Swerdlin & Company has sponsored several seminars this year. On June 27, 2001, we hosted a breakfast and panel discussion on the new law, EGTRRA. On November 28, we held morning and afternoon workshops for some of our local clients to discuss the administrative aspects of EGTRRA.

Congratulations to Alma and Donald Beyrl on the birth of their daughter, Almelfa Rose, who weighed in at 6 lbs. 9 oz.

Kudos to the Swerdlin employees who raised funds after the September 11 tragedy. Our employees raised $1,855 and Swerdlin & Company matched it, totaling $3,710. We split the money between the American Red Cross and the New York Police and Fire Widows and Children's Fund.

Join us in welcoming three new employees: (see photo below left to right) Nicole Tips, Kari Beebe, and Trudy Hess.

On November 16, eight of our employees donated their day to help build a house for the Habitat for Humanity. A good time was had by all!

Tony Brizzolara celebrated his 15th anniversary with Swerdlin & Company on October 6, 2001.

Congratulations to Michael Miller for his article "Unwrapping the '01 Tax Gift Advantage in Retirement Plans for Employers and their Employees," published in the November/December Competitive Edge magazine.■

Save More

EGTRRA, passed in June 2001, includes provisions increasing the amount you can save in most retirement plans.

Increased 401(k) Deferrals

The amount of pay you can save in your 401(k) plan increases by $500 in 2002 and then increases $1,000 every year thereafter until 2006 as shown.

Tax Year	401(k) Limit
2002	$11,000
2003	$12,000
2004	$13,000
2005	$14,000
2006	$15,000

In the past, an employee could never defer more than 25% of pay. With the new law, beginning in 2002, an employee can now defer up to 100% of his or her pay subject to the 401(k) limits. For example, if you earn at least $11,000 in 2002 and assuming no employer contributions, you can defer the full $11,000 in your 401(k) plan.

Increased IRA Savings

The amount you can contribute to a traditional or Roth IRA also increases in 2002 as illustrated.

Tax Year	IRA Limit
2002-2004	$3,000
2005-2007	$4,000
2008	$5,000

After 2008, the IRA limits will continue to increase with inflation in $500 increments.

Catch-up for Baby Boomers

If you are age 50 or older you are now allowed to make "catch-up" contributions into your 401(k) and IRAs. EGTRRA also includes catch-up provisions for 403(b), 457 and SIMPLE IRA plans. These amounts are above and beyond the 401(k) limits discussed earlier and are not subject to nondiscrimination testing.

Year	401(k) Catch-up	IRA Catch-up
2002	$1,000	$500
2003	$2,000	$500
2004	$3,000	$500
2005	$4,000	$500
2006	$5,000	$1,000

Don't miss this opportunity to strengthen your financial future. The more you set aside, the easier it will be to reach your retirement goals. Remember, the money you save in the 401(k) plan reduces your current taxable income. So get out there and save!■

FAQ?

Q I have both a profit sharing and money purchase pension plan which I need in order to contribute more than 15%. Does the new law (EGTRRA) have any effect on my situation?

A Yes. Under EGTRRA, the deduction limit for a profit sharing plan is raised from 15% to 25% of eligible compensation. You may want to revisit your plan design before next year, since the money purchase pension plan may no longer be necessary. You may be able to accomplish the same contribution requirements within the profit sharing plan beginning next year.

Q Our plan has to make a minimum distribution to the owner, since he turns 70½ on August 1, 2002. When do the payments have to begin?

A The first payment must be made no later than April 1 of the year following the year in which he becomes 70½, which is April 1, 2003. The next payment is due by December 31, 2003. Subsequent payments must be made annually by each December 31.■

Dorn's Corner

(Continued from page 1)

■Listen beyond what they are saying to see the underlying situation.

Respecting Relationships

Asking the following questions can eliminate some communication problems:

■Have I checked out the facts before acting on a story I heard?
■In making a decision, have I requested input from those affected by the decision?
■After the decision is made, have I communicated to all who are affected by the decision?
■Is this gossip? If so, how can I stop it in its tracks?
■Am I withholding information for my own power or security when the organization would be better off if I communicated?

Just like 2002 reads the same backwards and forwards, communication also goes both ways. Best wishes to all of you for a Happy Holiday Season and great 2002!■

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

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

We provide services for:

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- 401(k) Plans
- Money Purchase Plans
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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.