Swerdlin & Company
Actuaries ■ Pension Consultants

The Swerdlin Quarterly

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Dorn's Corner

I think you'll agree that one of the critical issues of current times is *Integrity*. What is integrity? One dictionary definition refers to "Öbeing of sound moral principle; honesty and sincerity". Another definition says: "Öbeing complete; unbroken, wholeness."

We "integrate" to bring together components to make a whole. An "integer" is a whole number. Okay, but what does wholeness have to do with being honest?

Quantum physics shows that we are all connected at some level. These connections are there whether or not we perceive them. When we deny these connections, we are "out of integrity"; we feel incomplete or not whole. We try to fill our incompleteness with drugs, food, sex, work, etc. Then all we get is addicted.

Classical (Newtonian) thinking puts us as separate from the outside world. The Quantum paradigm assumes that we are connected to "out there." Even more significant (and startling) is that we create our own personal "out there." The intention and attention on which we focus create our personal reality.

Three important connections to "out there" are:

1. Connections between us and others;
2. Connections between us and life;
3. Internal connections among the various aspects within ourselves.

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Time Is On Your Side

With the year more than half over, several events have occurred affecting retirement plans:

- Plans are either in the process or have been restated for tax law changes;
- The new law, EGTRRA, was passed and requires decisions to be made; and
- Company stock in retirement plans has garnered much attention in the media and Congress.

As we approach year-end and consider contributions, compliance testing, and plan design, it's a good time to address any changes you desire for the coming year.

Some plans may have previously failed the discrimination tests for deferrals and matching contributions. Other plans may be considered top heavy (more than 60% of the benefits are in key employee accounts). Still others may be in need of a design overhaul. A plan design change could be just what the doctor ordered.

A popular method for preventing failed discrimination tests is a 401(k) safe harbor contribution. Although the details were discussed in the 2nd quarter 2001 Swerdlin Quarterly newsletter, the highlights are worth addressing again.

A 401(k) safe harbor plan automatically allows a plan to pass certain discrimination tests, just by adopting one of these two design types:

- Safe harbor non-elective contribution
- Safe harbor matching contribution.

Companies using 401(k) safe harbor plans must meet a couple of conditions:

- The contribution must be 100% vested; and
- A notice must be given to the participant prior to the beginning of the plan year.

The *safe harbor non-elective contribution* mandates an employer contribution of 3% to participants. This 3% non-elective contribution can be implemented as late as 30 days prior to the plan year-end.

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In This Issue . . .

featuring

Our Client of the Quarter

We're pleased to present Atlantic Container Line as our featured Client of the Quarter. We have provided actuarial, recordkeeping and administrative services for their defined benefit and 401(k) plans for over 10 years.

ACL was founded in 1967 when several major European shipping lines joined together to build and operate an innovative fleet of roll-on/roll-off containerships. Since then, ACL has been carrying containers, project and oversized cargo, heavy equipment and vehicles between North America and Europe.

Throughout the 1970's and 1980's ACL became the Transatlantic market leader with an established record of service excellence.This led to further expansion by forming wholly-owned subsidiaries, providing trucking, maintenance, repair and stevedoring services.

In 1990, in response to a changing climate in the trade, ACL turned its primary focus to the North Atlantic Liner business. They streamlined by relocating their corporate offices from England to New Jersey, and outsourced a number of clerical functions. Acquired by Bilspedition, the Swedish Transport and Warehousing Group, ACL further expanded vessel-sharing agreements with other carriers, thereby offering more sailings between North America and Europe than any other shipping line.

In 1994, as a result of a successful public offering,the company was listed on the Oslo Stock Exchange. In 1997, ACL celebrated its thirtieth anniversary, while continuing to deliver ever-improving shareholder value to its investors. In 2001, ACL was acquired by the Grimaldi Group of Naples, Italy, a privately held shipping line whose services and operating scope proved to be an excellent compliment to ACL's own operation.

ACL's entire fleet is ISM (International Management Code for the Safe Operation of Ships and Pollution Prevention) certified. Highly trained customer care experts staff ACL's service centers in North America and Europe. ACL was one of the first shipping lines to launch a website, ACLcargo.com. Most recently ACL established new, weekly Roll-on Roll-off and container services between North America and West Africa and between North America and the Mediterranean.

Receiving numerous industry awards for customer service, reliability and profitability, ACL also received the President's "E" Award for Export Service for its outstanding contribution to the export expansion program of the U.S.

ACL's self developed quality process, "Focus on Performance", is the monitoring and measuring device which helps to ensure their customer's expectations are met through consistent and reliable service. As one of the transportation industry's quality pioneers, ACL has been incorporating a process of continuous improvement for 35 years.■

Plan Issues in Mergers and Acquisitions

Mergers and acquisitions are complex. Many important tax and accounting issues are sorted out during the process; however, employee benefit concerns are often overlooked. Following are some of the benefit plan questions to be addressed during mergers and acquisitions:

- Is this a stock transaction or an asset-only transaction?
- Do both companies sponsor qualified retirement plans?
- Should one plan survive and one be merged, or should one plan be terminated?
- How soon should acquired company employees be allowed to enter the surviving plan? Should prior service be credited?
- Are there any provisions of the prior plan that should/must be carried forward?
- What nondiscrimination, coverage and vesting issues should be considered?

With some pre-planning, concerns can be addressed and resolved.

In a *stock* acquisition, all of the benefit plans remain intact and become the responsibility of the acquiring company. Care should be taken to terminate unwanted plans prior to closing the deal. In an *asset* acquisition, the benefit plans usually stay with the company being bought. From a plan perspective, an asset deal is simpler because employees brought over can be considered new hires.

Regardless of the form of acquisition, this is a turbulent time for employees who are concerned about losing their retirement benefits. You need to consider the different plan designs by addressing issues such as:

- Is there a 401(k) plan with directed investments, loans and immediate entry?
- Is there a matching contribution paid each payroll period?
- Is there a requirement that participants be employed on the last day of the plan year to receive a match?
- Is there more than one vesting schedule?

Compliance is also critical. Merging assets from a plan with problems could taint the receiving plan. Before closing the deal, some due diligence is in order. For example, make sure:

- Plan documents and summary plan descriptions are current;
- The plan has a determination letter, if required;
- Form 5500 filings are up to date;
- Confirm there are no outstanding issues if the plan has been audited by the IRS or DOL; and
- Enrollment, beneficiary, loan, etc. forms have been signed.

What else is there to consider? Coverage. In a stock transaction, if one of the plans is on a prototype document, i.e., a "check-the-box" arrangement, it's critical to take some action prior to closing the deal. Often the definition of someone eligible for the plan is any employee of the employer. If there is now one employer for both companies, it may be that employees of both companies are immediately covered by both plans and due benefits under both plan designs. Be careful of unintended results.

Finally, if the selling company sponsors a defined benefit plan, make sure you are aware of any unfunded liabilities. You could be responsible for significant benefit obligations if you are not properly advised.

Your attorney, administrator and other advisors should be kept informed as necessary. It's important to become educated and ask questions before the deal closes.■

E-mail

We are planning to send e-mails periodically to keep you informed of timely issues which may affect you and your company, and we want to be sure our records are up-to-date.

Please take a moment to send us your e-mail address and be sure to include your name as well as the name of your company.

Welcome to Swerdlin & Company!

From left to right: Chastity McCrary, Mary Butina, Cassandra Bynums and Jessica Rakestraw Barganier.

Outsourcing Adds to the Bottom Line

A recent press release discussing a survey conducted by Hewitt Associates reveals that nine out of ten U.S. CFOs believe outsourcing non-core functions of their business increases shareholder value. While the study finds information technology to be most frequently outsourced, HR functions are second at 41%. Sixty-four percent of the outsourced HR functions are defined benefit and defined contribution plan services.

What's the drive behind these decisions? Seventy percent report their decision comes from a desire to tap into sources of talent and expertise not existing within their own organizations. A two-thirds majority reports that focusing on their core business plays an important role in the decision to outsource, while 53% are concerned with reducing headcount and related expenses.

Because of the need to focus on their core business, small and midsize companies are more inclined to outsource pension and defined benefit administration. With the current economy, executives of larger corporations are now considering outsourcing as a means of relieving cost and reducing risk. Study participants (83%) indicate the most important reason for outsourcing is a desire to drive organizational performance by enhancing HR services.

"As companies face increasing competitive pressures, they are searching for ways to remain focused, flexible and technologically competent" said Mike Wright, global practice leader, HR Effectiveness, Hewitt Associates. "Outsourcing addresses these needs in addition to giving organizations access to specialized talent. And, outsourcing adds strategic value, particularly by instilling best practices and improving quality and service."

The Hewitt study included more than 500 CFOs and senior finance executives. Those who measured their return found an average reduction of 17% in pre-outsourcing expenses in 2001 and anticipate the same for 2002.

Wright added, "Technology has made possible promising new outsourcing solutions, as companies strive to gain better organizational efficiencies. At the same time, HR knows they're spending too much on activities with too little value. And, CEOs want HR in the position of contributing to the bottom line. Theses events all add up to an opportunity for companies to put the administrative burden of HR transactions in the hands of an outside provider."

This Hewitt Associates press release can be viewed in its entirety at www.Hewitt.com.■

What's Happenin'

Michael Miller and Adam Pozek have been very active as speakers in the pension community recently. Michael spoke at an ESOP seminar on August 1st in which he discussed design and planning prior to establishing an ESOP. Adam spoke on Current Trends in Reporting & Disclosure at an Atlanta WEB luncheon and an ASPA seminar in San Diego.

Adam Pozek has been invited to join ASPA's Government Affairs subcommittee on Reporting & Disclosure.

Congratulations to Laura Matlock who married John O'Connor on June 8th in Key West. We wish them a lifetime of happiness.

Melissa Spencer celebrated her 10th anniversary with Swerdlin in August.

Congratulations to Christy Crossway and her husband Bo, who are the proud parents of a baby boy. Devin Eugene Crossway was born on July 30th and weighed in at 9 lbs. 2 oz.

Kudos to Kathy Latour on her promotion to Associate Pension Administrator.

We welcome three new employees this quarter: Cassandra Bynums, Chastity McCrary and Jessica Rakestraw Barganier.

We celebrated Bring Your Dog To Work Day in June - 11 dogs visited with us for the day.■

It's a Dog Day!

Swerdlin & Company employees participated in the 2002 Annual Bring Your Dog to Work Day.

Time Is On Your Side

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The *safe harbor matching contribution* mandates an employer contribution to participants who defer in the 401(k) plan. The matching contribution formula is 100% of the first 3% of compensation, plus 50% of the next 2% of compensation. For example:

- A participant deferring 2% of compensation receives a 2% match;
- A participant deferring 3% of compensation receives a 3% match;
- A participant deferring 4% of compensation receives a 3Ω% match; and
- A participant deferring 5% or more of compensation receives a 4% match.

While it's too late for 2002, a safe harbor provision can be implemented for 2003. Please contact your Client Manager or Lee Swerdlin to arrange for a full discussion and analysis of a 401(k) safe harbor plan or other plan designs.■

Dorn's Corner

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Iíd like to elaborate further on these connections.

Others
How we judge others affects them as well as us. If a teacher thinks a student is slow, that limits the student's ability to learn and grow. We often don't realize how much we affect others. Have you ever noticed how the whole mood and conversation shift when one person leaves the room in a group discussion?

If we treat others as completely separate from us and deny the connection, it can and does lead to the evils of our society.

Life
We are part of life and life is part of us. The whole concept of life is drastically changing. For example, is our earth a large inanimate rock with life only at its surface - or is it a large single living organism? More and more scientists are considering the second description. Under this way of thinking, we humans take a much different role with our home planet. Classical thinking has humans as the masters of our world and all of its biology. New thinking has us as an integral component of a very large being, and not the master of any of it.

Ourselves
We become "out of integrity" when we deny any part of ourselves. If we look outside of ourselves to fill the "holes," we find that it doesn't work. We need to discover our connections from within to build integrity.

Ralph Waldo Emerson said it well, "What lies behind us and what lies before us are small matters compared to what lies within us."

The good news for me is that as this new era of Quantum Thinking dawns, and more and more people understand integrity, we are not putting up with those who would hurt others. As the light gets brighter, the shadows become sharper and we can better deal with and prevent destructive behavior.■

LMT

Swerdlin & Company's Leadership Management Team. Back row (left to right): Dorn Swerdlin and Tony Brizzolara. Front row: Laura Matlock, Glenda Devechio and Joanne Swerdlin.

FAQ?

Q For 2002, our plan allows catch-up contributions for those participants age 50 or older. Do I have to match the $1,000 catch-up contribution?

A You need to refer to your plan document, since this was an option in the EGTRRA amendment. If you elected to match, then you must be sure to apply the match formula to the entire $12,000 salary deferral. If you elected not to match, be sure your payroll department limits deferrals to be matched to $11,000.

Q How does not matching or matching the catch-up contribution affect the annual compliance testing of the matching contribution?

A If your plan does not match the catch-up contribution, then it is not counted in the test at all. However, if you match the catch-up contribution, the match will be included in the testing. If you have many Highly Compensated Employees who are over 50 and are making the catch-up contribution, there is a possibility the test will fail and refunds will be required.■

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

We provide services for:

- Profit Sharing Plans
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- ESOPs
- Cash Balance Plans
- Age-Weighted Plans
- New Comparability Plans (Cross-Tested)
- TSAs/403(b)/457 Plans
- Comprehensive Employee Benefit Statements
- Supplemental Executive Retirement Programs (SERPs)

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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.