Swerdlin & Company
Actuaries ■ Pension Consultants

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Dorn's Corner

Well, it's time for me to make my declaration for the coming year.

I declare 2003 as the Year of Integration. What does this mean to me? During the next year we will work on integrating all of the things we've thought about and worked on over the years. 2003 marks the ninth year for my annual declarations which are listed below:

1995 Year of Training and Development

1996 Year of Affluence

1997 Year of Community

1998 Year of the Consultant

1999 Year of Trust

2000 Year of Accountability

2001 Year of Continuous Improvement

2002 Year of Communication

I would like for 2003 to be the year where we pull together these concepts resulting in a unified culture where we think "both-and" rather than "either-or." For example, can we have "accountability" and an open, friendly environment at the same time? Can we have teamwork and still recognize individual achievement? The answer is yes, and that is what integration is all about -- the combining of separate components resulting in an integrated whole. Can we focus on "Open Book Management" next year without losing other important values we've developed over the years? Yes, if we

(Continued on page 5)

2003 Qualified Plan Limits Are Out

The following table summarizes the various limits affecting qualified plans for plan years beginning on or after January 1, 2003. We will be mailing out our quick-reference plan limit cards soon.

IRS Dollar Limits	2002	2003
Defined benefit plan annual benefit limit	$160,000	$160,000
Defined contribution plan annual addition limit	40,000	40,000
Maximum 401(k) deferral	11,000	12,000
Maximum 401(k) catch-up deferral	1,000	2,000
Maximum SIMPLE deferral	7,000	8,000
Maximum 457 deferral	11,000	12,000
Highly compensated definition compensation	90,000	90,000
Annual compensation limit	200,000	200,000
SEP coverage	450	450
Social Security Taxable Wage Base	84,900	87,000

In This Issue . . .

2003 Qualified Plan Limits Are Out 1
Client of the Quarter: United Feeds 2
The Check is in the Mail 3
Where is the Control? 3
Defined Benefit Plans - Trends 4
What's Happenin' 4
Frequently Asked Questions 5

featuring

Our Client of the Quarter

We are proud to present United Feeds, Inc. as our Client of the Quarter. Swerdlin assists United Feeds with the administration and recordkeeping of their 401(k) plan and ESOP.

United Feeds was founded in Sheridan, Indiana in 1956 by John Swisher. Mr. Swisher says, ìI came to Indiana in 1956 with a 10 year old Ford, $25,000 borrowed from my mother-in-law, a pregnant wife and a daughter who needed eye surgery.î With a degree in Animal Sciences from the University of Illinois, Mr. Swisher had a dream to attract customers and help them grow and prosper. This philosophy has worked beyond his dreams. He has grown this employee-owned company to 450 employees manning 8 grain facilities totaling over 11 million bushel storage and 7 feed mills supplying customers throughout the United States and abroad. United Feeds is privileged to serve top hog producers totaling nearly 400,000 sows.

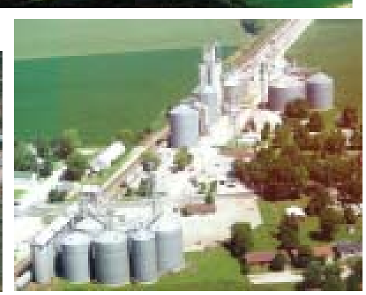
United owns and operates 4 pork production and research farms, producing approximately 46,000 pigs per year. The primary purpose of these farms is to test, develop and improve swine feed nutrition. Additionally, the facilities are used to test and demonstrate new ideas in building design, feeding equipment and breeding techniques.

The research and development team conducts over 400 trials a year and works in conjunction with several universities, boar studs, and scientists abroad. Along with the development of new feeds, United Feeds tests genetics, molecular nutrition, equipment, and management practices to keep their customers well informed on the latest ideas and newest technologies in the industry. Research is currently being conducted to develop swine feed and feed additives that will result in manure that will be less stressful to the environment.

United specializes in discovering, manufacturing and delivering proprietary, value-added nutrition formulations developed by its research and development staff and extensively tested under commercial production conditions on its own research farms. These nutrition products are marketed by Unitedís educated and continually trained sales staff servicing its customers directly on their farms. Sales efforts are backed by a proprietary economic records program intended to provide producers nationwide with reliable, comparable economic data on profitability, operating and feed efficiency, and production costs.

Prices are kept low by delivering directly to the customer, by using no distributorships and very little advertising. Nutrition products are delivered to customers by Unitedís own fleet of specially designed trucks. You pay only for feed, service, technology and education.

United Feeds has made huge strides in the marketplace in recent months. This year, after nearly three years of intense research trials, ìFertilium,î their encapsulated omega fatty acid supplement for sows and gilts, was successfully launched. Patent applications have been filed for United Feeds on ìFertiliumî and their technical group is currently investigating its potential use in species beyond swine.■



The Check Is In The Mail

The question of when participant salary deferrals and loan payments must be deposited into the plan is a long-standing issue and one about which the Department of Labor ("DOL") has been quite vocal. Regulations include two different tests to determine if deferrals have been submitted timely.

The more well-known of the two tests is the "fifteen business day rule." This rule requires salary deferrals be submitted no later than the fifteenth business day of the month following the actual payroll withholding. Thus, deferrals withheld during the month of January should be submitted by the 15th business day of February.

The second test, which is often overlooked, provides that if it is possible to deposit deferrals earlier than the 15th business day, then the deadline becomes the first day it is administratively possible to make the deposit. This rule presents several operational issues to consider.

It is not uncommon for an employer to have several payroll periods in a month but to wait to deposit salary deferrals until after the final payroll of that month. However, the DOL has stated informally that if it is administratively possible to make a deposit within a certain number of days following the final payroll of the month, it should also be possible to make a deposit within the same number of days after each mid-month payroll. Based on this reasoning, any mid-month salary deferrals would be considered late deposits.

The DOL has concentrated considerable resources on policing this issue. Late deposits are considered prohibited transactions and are subject to penalties. Each month, the DOL issues press releases announcing lawsuits it has filed against large and small companies alike for failure to timely remit salary deferrals of amounts as low as $5,000. In addition, CPAs who conduct plan audits each year are required to review the timeliness of deposits.

What actions can a plan sponsor take to ensure compliance? One option is to simply accelerate deposits. If there are multiple payrolls in a month, the deferrals should be remitted to the plan custodian after each payroll.

A second option is to open a checking account in the name of the plan (as opposed to the employer). After each payroll, deferrals could be transferred to this account. Then, after the final payroll period of the month, the total deferrals for the month could be transferred to the plan custodian.

For plan sponsors who have already made late deposits, the DOL has established the Voluntary Fiduciary Correction ("VFC") program. This program provides instructions to calculate any earnings participants may have lost due to the late deposits. If an employer follows the procedure outlined in VFC to make up the lost earnings and files the correction with the DOL, the DOL will issue a letter waiving any penalties it could have assessed.

We have worked with many clients to correct late deposit issues and to establish procedures to avoid future problems. If you have any concerns about your deposits, please give us a call.

Where Is The Control?

Plan fiduciaries are required to act solely "in accordance with the documents and instruments governing the plan Ö" So says ERISA. What does this mean? When a retirement plan (or a welfare plan) is established, a plan document is drafted. Participants, not necessarily understanding or wanting to read legal terminology, are given the highlights of plan provisions in a Summary Plan Description (SPD). Every once in a while a case makes it through the courts asking what happens if the two documents conflict. The court has consistently ruled in favor of the employee.

For example, a company sponsored a retirement plan. The SPD said vesting service was from date of hire with an acquired employer. The plan document said vesting service was from date of hire, without reference to any prior service. Upon termination of employment, a claim was submitted requesting 100% vesting, but was denied based on the language in the plan document. Because the employee only read the SPD, a court would resolve the conflict in the participant's favor, vesting him at 100%.

Don't worry. Plan Administrators are permitted discretion to interpret plan provisions. If a term is not identified clearly or the plan specifically permits discretion, as in the case of a denied claim, Plan Administrators can make the interpretation.

When amending or restating a plan document, it is important to review the SPD to make sure each says the same thing. And, if an interpretation is made, it is applied consistently to all participants. If you're unsure, contact your benefits consultant or ERISA attorney.■

Defined Benefit Plan Sponsors Take Note!

Because of law changes, you may want to consider distributions to any terminated vested participants who have already had their lump sum benefits calculated before the end of 2002. Otherwise, you could incur additional fees to recalculate lump sum benefits using the newly prescribed mortality table.

Defined Benefit Plans - Trends

A growing proportion of the U. S. workforce is covered by an employer-sponsored retirement plan, but traditional defined benefit (DB) plans are steadily losing ground to "alternative" retirement plan options, according to a survey recently conducted by the Employee Benefit Research Institute (EBRI). According to the study, employers are increasingly offering defined benefit plans that pay lump-sum distributions upon termination of employment, primary and supplemental defined contribution plans, and a variety of hybrid arrangements. However, the study further found that traditional defined benefit plans remain an important part of the retirement system.

Key findings of the study include the following:

Between 1975, when the Employee Retirement Income Security Act (ERISA) became effective, and 1998, the number of private sector qualified retirement plans more than doubled, from 311,000 to 730,000. The number of participants in these plans, including active employees, separated vested workers, survivors, and retirees, rose from 45 million to 99 million. The number of active participants increased from 31 million to 52 million over the same time period.

The number of defined benefit plans decreased between 1975 and 1998, while the number of total participants in such plans remained fairly constant and assets grew. The number of private defined benefit plans increased from 103,000 (33 million participants) in 1975 to 175,000 (40 million participants) by 1983, and then decreased to 56,000 (42 million participants) by 1998.

The relative financial positions of defined benefit and defined contribution (DC) plans are shifting. Assets in DB plans grew from $186 billion in 1975 to more than $1.9 trillion in 1998. At the same time, assets in DC plans rose from $74 billion to nearly $2.1 trillion, an increase in the relative share of DC assets from 28 percent in 1975 to 52 percent in 1998.

What factors are causing this trend away from defined benefit plans and toward defined contribution and hybrid plans? We believe the important factors are:

- Defined contribution plans are more flexible which is important in a volatile economy.
- Employees better understand defined contribution plans.
- 401(k) plans are popular and employees enjoy being able to participate.
- Many advisors do not understand defined benefit plans, and therefore do not recommend them.
- Legislation in the 1980's was generally unfavorable to defined benefit plans.

Legislation in the 1990's, however, loosened some restrictions on DB plans, making them much more attractive.

We maintain the defined benefit plan remains the best way to provide income for employees at retirement. The employee can better plan for his/her retirement because the DB plan provides a formula usually based on pay. Also, the older small business owners, board of director members, and sole proprietors can contribute and deduct much more under a DB plan than a DC plan.■

What's Happenin'

Congratulations to Dee Robbins who has been elected to serve another term as Vice President-Programs for the Atlanta Chapter of Worldwide Employee Benefits (WEB).

On September 19, Michael Miller and Adam Pozek presented a full day seminar on the Form 5500 series sponsored by Lorman Education Services.

Dorn Swerdlin and Michael Miller recognized Employee Ownership Month by speaking at an ESOP conference in Memphis. Dorn was on a panel discussing Open Book Management, and Michael's panel was about ESOP feasibility. Many attended a reception the night before at Elvis Presley's Memphis restaurant. Those of you who know Dorn can imagine how much he enjoyed that!

Michael Miller will be leading a discussion about 401(k) and ESOP administration at the 2-day November ESOP conference at Caesar's Palace in Las Vegas.

Susan Petrirena and Amy Murphy participated in the annual City of Hope walk on August 19. Having raised almost $500, this was the fourth year Swerdlin employees participated in this event.

On September 12, Dorn Swerdlin conducted a company wide meeting to introduce the Great Game of Business to Swerdlin & Company. (If you would like more information, see Dorn's Corner in the second quarter 2002 Swerdlin Quarterly.)

We welcome four new employees this quarter: (seated) Teresa Childers, (standing from left to right) Aaron Cox, Gordon Thompson and Adrian Johnson.■

Quiz Time!

Which of these services does Swerdlin & Company provide?

- ☐ Comprehensive benefit statements
- ☐ Actuarial expert witness testimony
- ☐ Retirement plan regulatory compliance
- ☐ Nonqualified plan administration
- ☐ Plan design and feasibility
- ☐ ESOP administration
- ☐ Actuarial services
- ☐ Daily recordkeeping services

If you answered YES to all of the above, you are 100% correct and fully vested in your Swerdlin knowledge!

Dorn's Corner

(Continued from page 1)

think about "integration" of these two processes.

One way to enhance integration is to look for:

The similarities in the differences, and the differences in the similarities.

For example: Assume one person has superior technical knowledge and average people skills, while another person has superior people skills but average technical knowledge. These two people could have little respect for each other because each only respects others with similar skills and knowledge. They could look at each other and think, "I don't respect him/her because he/she doesn't have good people skills (or technical knowledge)".

If looking for similarities in the differences, they could decide:

"We are different, but we both want to serve our clients and forward our careers."

If looking for differences in the similarities, they could recognize:

ìOur common goals bind us as we each offer different approaches to the same process. I can build relationships with our clients through my people skills and you can add value by providing the same client with the technical information needed. Together we can make a great team by integrating our skills.î

A quote from Bernard M. Baruch summarizes well this differences/similarities idea.

"We didn't all come over on the same ship, but we're all in the same boat."

Another variation of integration is to focus on one thing while at the same time keeping the "big picture" in mind. This allows you to attend to the details and not lose focus on the company's vision and values. This requires "both-and" thinking rather than "either-or" thinking. We can and do keep many tasks and goals in mind as we focus on one task or goal.

So as we at Swerdlin roll out our open book management process this December, we plan to integrate this new process together with our other initiatives created over the years.

I would like to wish everyone a Happy and Healthy Holiday Season.■

FAQ?

Q Our plan has 85 participants, and many of them don't read English very well. Is there a requirement to provide a Summary Plan Description (SPD) in their language?

A Yes. If at least 25% of your participants are literate in the same non-English language, you must include a notice in their language for obtaining assistance in understanding the SPD. If your plan has over 100 participants, this notice is required if the lesser of (a) 10% or more of the participants or (b) 500 or more participants are literate in the same non-English language.

Q Did the law recently change regarding tax withholding on hardship distributions?

A Yes. Effective January 1, 2002, hardships are no longer eligible for rollover and therefore no longer subject to the 20% mandatory withholding requirements. These distributions now fall under the "non-periodic" distribution rules, which require a 10% mandatory withholding unless the participant elects to waive this withholding. Since hardships are based on financial need, a withholding that can be waived does not meet the financial need requirement. Therefore, grossing-up a hardship distribution to pay taxes is no longer permitted.■

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