Swerdlin & Company
Actuaries and Employee Benefit Consultants

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Fee Disclosure – Time to Tell the Tale

The year 2012 has significant meaning for many people for many different reasons. Some believe it will end life as we know it because the ancient Mayan calendar comes to an end. For those of us involved with administering retirement plans, 2012 does change life as we know it. The year 2012 is the dawn of a new era: Plan and Participant Fee Disclosure!

For years, the DOL has been moving towards full plan-level and participant-level fee disclosure for retirement plans. The first phase of this disclosure went into effect in 2009 with more detailed reporting required on Schedule C of Form 5500. Since then, the DOL has been diligently working to define all of the information that must be disclosed.

The next three phases of disclosure go into effect in 2012. The first phase relates to plan-level fee disclosure. On or before July 1, 2012, certain plan service providers must update their service agreements to fully disclose any fees or revenue they collect (or may collect) from retirement plan assets.

The second phase requires the annual fee disclosure notice be delivered to participants on or before August 30, 2012. This notice must provide a

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Dorn's Corner

I continue this quarter with the conversation about this special year, 2012. My declaration for this year is The Year of Transformation. Last quarter I covered some scientific observations about the changes which are occurring now. This quarter I step out beyond science to see what others are saying about the transformation of human consciousness.

Chaos theory tells us that in order to transform systems to a higher order, the old systems must fall. It is easy to see the breakdown of many current systems in our country and the world as a whole. The following systems represent some that are already falling apart:

- Health care in the U.S. is in trouble,
- More and more corruption is being exposed in our government, showing how our leaders are abusing their power rather than serving the people,
- In our global economy, the greedy and self-serving leaders are also being exposed to the public,
- The wars, terrorism, and trouble in the Middle East, including the threat of nuclear warfare, are all jeopardizing our security and even our survival.

I believe that our egos fool us into thinking we are much less than we are.

(continued on the back cover)

GASB Exposure Drafts for Governmental DB Plans

The Governmental Accounting Standards Board (GASB) is currently the source of Generally Accepted Accounting Principles (GAAP) used by state and local governments in the USA. GAAP is a private, non-governmental organization.

In 2011, GASB issued two Exposure Drafts proposing improvements to financial reporting of pensions by state and local governments. The first Exposure Draft, an amendment of GASB Statement No. 27 (Pension Exposure Draft), primarily relates to reporting by governments that provide pensions to their employees. The second Exposure Draft, an amendment of GASB Statement No. 25 (Pension Plan Exposure Draft), addresses the reporting by the pension plans that administer those benefits. Both Exposure Drafts also make amendments to GASB Statement No. 50, Pension Disclosures.

These Pension Exposure Drafts propose that governments be required to report a **net pension liability** in their statement of financial position. The net pension liability is the difference between the total pension liability and net assets set aside in a qualified trust to pay all pension benefits.

If adopted, the calculation of the total pension liability and pension expense will significantly change. These changes include:

- Separate accounting and funding reporting;
- Pension liability must be recognized on the employer's balance sheet;
- Increased uniformity of methods, including:
  - Entry age actuarial cost method for all plans;
  - Market value of assets;
  - Discount rate changes for some plans; and
  - Faster recognition of gains and losses, assumption changes, and benefit changes.
- More timely information for users of financial statements; and
- Potential for more volatile expense.

The GASB proposals would require that governments recognize their pension liabilities on the face of their financial statements rather than disclosing them in the notes, as is done currently. According to GASB, "recognition in the financial statements, alongside other liabilities such as outstanding bonds, claims and judgments, and long-term leases, will clearly put the pension liability on an equal footing with other long-term obligations." ■

Fee Disclosure – Time to Tell the Tale *(continued from page 1)*

significant amount of information to plan participants, including:

1. All plan-level fees that may be charged to a participant's account. Some examples are:
   a. Administration fees,
   b. Audit fees, and/or
   c. Advisory fees.
2. All individual, participant-level fees that may be charged to a participant's account. Some examples are:
   a. Distribution fees,
   b. Loan fees, and
   c. Other transaction fees.
3. All investments available for selection by participants must be listed. Fund information must include, but is not limited to:
   a. Fund name,
   b. Asset class,
   c. Performance history,
   d. Expense information,
   e. Cost to invest per $1,000, and
   f. Fund benchmarking.

Going forward, this notice must be provided to all newly eligible participants before they enter the plan and to all participants on an annual basis.

The third and final phase for 2012 is quarterly fee disclosure at the participant level. Beginning on or before November 14, 2012, participants must receive at least quarterly a detailed list of any and all fees charged directly to their retirement account. These include administration fees charged against plan assets, as well as individual transaction fees such as loan origination fees or distribution processing fees. Most service providers will add this information to the quarterly participant statements.

Plan fiduciaries are responsible to comply with these new regulations. In most cases, the plan service providers will either provide the notices on behalf of the plan sponsor or will provide a template for the plan sponsor's use in meeting these requirements. If you have questions or concerns regarding compliance with these new regulations, please contact us. ■

We can help you with the following:

1. Actuarial services, including:
   - Defined Benefit
   - Cash Balance
   - Supplemental Executive Retirement Programs (SERPs)
   - Actuarial Expert Witness
   - Medicare Part D Actuarial Attestation
   - Post-retirement medical calculations: ASC 715-60
   - Actuarial studies for Health and Welfare Plans
   - Compliance testing for self-funded plans.

2. ESOP administration, including:
   - Publicly traded
   - Privately held
   - Leveraged
   - Non-leveraged
   - KSOPs
   - Repurchase Liability Studies

3. Other Defined Contribution Plans, including:
   - 401(k)
   - TPA & Recordkeeping Services
   - Cross-tested and age-weighted
   - 403(b), 401(a), 457

4. Cafeteria (Section 125) Plan Administration, including:
   - **FSAs**
   - POPs
   - HRAs
   - QTPs

5. Other consulting services, including:
   - Comprehensive Employee Benefit Statements
   - Plan Design
   - Employee Communication
   - Regulatory Compliance
   - Special Studies

Each retirement plan must retain an outside broker or investment advisor. We are not investment advisors.

Service Spotlight: FSA Limits Loom Closer

$2,500 Limit for Health FSAs

The Patient Protection and Affordable Care Act of 2010 (PPACA) imposes a **$2,500 annual limit** on salary reduction contributions to health Flexible Spending Arrangements (FSAs) offered under cafeteria plans. This limit applies to both grandfathered and non-grandfathered health FSAs. This new limit is effective for **taxable years beginning after December 31, 2012**. Beginning with the 2014 tax year, the $2,500 limit will be indexed for inflation.

The health FSA limit generally applies on a calendar year basis. Therefore, an employer sponsoring a **calendar-year health FSA** can set the limit at $2,500 (or less if desired) beginning with the 2013 plan year, which starts January 1, 2013.

If the employer's health FSA operates on a non-calendar year basis, administration of the limit is more complicated.

Per Participant Limit

Each participant may elect up to $2,500 in salary reductions, regardless of whether or not he or she also has family members who benefit from the funds in that FSA. However, each family member who is eligible to participate in his or her own health FSA will have separate limits. For example, a husband and wife who have their own health FSAs can both make salary reductions up to $2,500 per taxable year (subject to any lower employer limits). Also, the health care reform law indicates that if an individual has health FSAs through two or more unrelated employers, he or she can make salary reductions up to $2,500 under each employer's health FSA.

Employer Contributions

Under PPACA, the $2,500 limit applies to health FSA salary reduction contributions, not to other employer contributions.

Swerdlin & Company will continue to inform you of developments related to this and other health care reform issues. ■

F.A.Q.

Q *One of our employees has declared bankruptcy. How do I handle his outstanding loan?*

A Generally, you should stop the loan repayment deductions as soon as you are aware of the bankruptcy. The employee has the option of continuing to make payments to the loan by personal check, but it is not required. If the bankruptcy is not resolved or dismissed by the time the loan would have been paid, the loan should be defaulted.

Q *One of our participants has a loan and just left on an authorized leave of absence. What do we do about the missing loan payments?*

A The IRS allows a participant on an authorized leave of absence to stop loan payments for up to 12 months. Once the employee returns to work, the loan payments must resume immediately. Payments must be recalculated to include the unpaid accrued interest, and the term of the loan cannot be extended past the original maturity date or five years from the effective date of the loan.

The Match is Back! Are You Ready?

USA Today reported in November 2011 that most employers who stopped making matching contributions during the recession have either restored them or plan to do so. This article was based on a survey conducted in October 2011 by the Plan Sponsor Council of America (PSCA). By 2009, 11.2% of companies with a 401(k) plan had suspended their match. However, by the end of 2010, only 2.1% of these employers were continuing their match suspension. The PSCA found that 12.1% of companies surveyed increased their match or added a matching contribution, and 7.3% have fully restored suspended or reduced matches. In 2011, more than 93% of companies made employer contributions to their retirement plans, and almost 40% used a matching formula to do so.

If you currently provide a matching contribution to your retirement plan, or are considering adding or reinstating a matching contribution, now is the time to ask yourself, “How do we make the most of our matching contribution?”

One of the main reasons plan sponsors add a matching contribution to a 401(k) plan is to attract and retain employees. Firms that offer matching contributions are more likely to attract employees who are savers. These employees understand they must remain long-term employees to gain the full benefit from employer matching contributions.

Participation Rate

The matching contribution affects the participation rate of your employees. In the typical 401(k) plan, about 60% of non-highly compensated employees (NHCEs) contribute to their plan regardless of the match; 10% participate as a result of the match; and nearly 30% of NHCEs do not participate regardless of the match. Some other forms of employer contributions, such as profit sharing contributions, can actually lower the 401(k) participation rate. Employees may be less inclined to save on their own when the employer makes a discretionary profit sharing contribution.

Contribution Rate

Employer matching contributions may affect participants’ contribution rates. Generally, a large proportion of employees contribute enough to receive the full match, but no more. For example, one plan matches $1.00 for each dollar deferred up to 3% of pay, and the other provides $0.50 for each dollar deferred up to 6% of pay. Both plans offer the same maximum match. However, in the first plan, many employees only contribute 3% of their salary, whereas in the other plan, employees contribute at least 6% of their salary to capture the full match.

Whatever you decide, make sure to communicate the match to your participants. If your employees are not told and reminded of the value of the match, it will have little impact on their participation in the plan, or on retention. To discuss your options further, feel free to give your Swerdlin representative a call. ■

ABOVE: Susan Petrirena, Scott Foreman and Donna Martin attended the NCEO Conference in Minneapolis.

LEFT: Kristin Hamilton and Adrian Farnon attended a Braves game hosted by WEB.

ABOVE: Corrie Warren, Dee Robbins, Janet Wadlington, Kristin Hamilton, Joanne Swerdlin, Susan Petrirena, Christine Love, Glenda Devechio and Debbie Johnson attended the Charity Clothes Swap.

What's Happenin'

Swerdlin & Company celebrates 32 years in business this year. Also, April marked one year since Swerdlin acquired **Penret Services, Inc.**, a Third Party Administrator for Qualified Retirement Plans in the greater Boston area.

Congratulations to **Tina Gilbert's** daughter, Brittany, who recently graduated from The University of West Georgia with a bachelor's degree in Education.

We welcome **Waveney Blackman**, an Actuarial Analyst, who has joined our Actuarial Team.

Anniversaries we celebrate this quarter: **Dorn** and **Joanne Swerdlin**, 32 years; **Jaynie Cormier**, 26 years; **Donna Martin**, 19 years; **Dee Robbins**, 16 years; **Connie Woodmansee**, 11 years; **Barbara Sneed** and **Mike Raker**, 8 years; **Rigbe Hailessellassie**, 5 years; **Beverly Bailey**, **Craig Lindenlauf** and **Graeme Hefner**, 4 years; **Christy Kennison**, 2 years; and **Atiya Riley-Hart**, **Ed Ilano** and **Jim Martin**, 1 year.

Swerdlin & Company held their quarterly workshop on various topics concerning benefits updates. Speakers included **David Benoit**, **Glenda Devechio**, **Julie Isom**, **Steve Olson** and **Susan Petrirena** of Swerdlin, along with **Lisa Durham** of Krieg Devault.

In April, **Amy Letts**, **Marjorie Cade** and **Nick Wilson** attended the EBIA conference at the DoubleTree Hotel in Atlanta.

Swerdlin hosted its 2nd Annual **Charity Clothes Swap** on April 14. We collected several bags of clothes that were given to various charities in the Atlanta area.

David Benoit spoke on Health Plans at the 10th annual WEB Atlanta Benefits Boot Camp on April 18 at the Cobb Galleria. Swerdlin & Company co-sponsored the event, and **Adrian Farnon**, **Joanne Swerdlin** and **Lee Swerdlin** attended the conference.

Mike Raker and **Steve Olson** attended the GEMC Accounting Association Conference on April 19 and 20 at St. Simons Island, GA. Swerdlin co-sponsored the event in support of our many clients who are actively involved in this Association.

Donna Martin, **Dorn** and **Joanne Swerdlin**, **Scott Foreman** and **Susan Petrirena** attended the NCEO's Annual ESOP Conference in Minneapolis, MN in April. **Scott Foreman** spoke at one of the conference sessions, and Swerdlin co-sponsored the conference reception on Thursday evening at Orchestra Hall in downtown Minneapolis.

On April 20, **Adrian Farnon** attended the Annual WEB National Conference in Chicago, IL. Adrian is a member of the Atlanta WEB Board.

Beverly Bailey, **Christine Fu**, **Jeffrey Groves**, **Mike Raker** and **Steve Olson** attended the Atlanta Actuarial Club's Spring 2012 Speaker Luncheon at the Crown Plaza Ravinia on April 25.

Dorn Swerdlin, Joanne Swerdlin and **Susan Petrirena** attended The ESOP Association Annual Conference in Washington, D.C., May 9-11.

Adrian Farnon and **Kristin Hamilton** enjoyed watching the Braves win against the Phillies on May 2 at the Braves Stadium. This event was hosted by WEB Atlanta, making this their 3rd annual Member Social.

May 17-18, **Adrian Farnon**, **Craig Lindenlauf**, **Kathy Latour**, **Kim Hall**, **Lee Swerdlin**, **Ricky Cox** and **Steve Olson** attended the ASPPA 2012 Benefits Conference of the South in Atlanta. **Julie Isom** was a speaker at the event. **Lee Swerdlin** is President of the Atlanta ASPPA Chapter. ■

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Dorn's Corner

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This limits our consciousness and causes us to be unaware of the greater powers within us and hidden from us. Our limited consciousness leads us to believe that we are powerless to change the world. Our Western worldview limits the perception of our power. The world is suffering because we all think from a place of scarcity rather than abundance. I think the universe is infinitely abundant and we can tap into that unlimited abundance. I believe we have the resources to change the world. If enough creative people come together and accumulate a critical mass, a shift in human consciousness is probable. Otherwise, we could devolve into destruction.

The good news is that destructive behavior is being exposed to the whole world. Powers that be are losing their foothold and their institutions are starting to crumble into dust.

How do we evolve rather than devolve into oblivion? I believe we as individuals can do it by evolving ourselves during this time of transformation. The energy being transmitted from our galaxy's center, at this time, is affecting the earth and each one of us in an extraordinary manner. We are at the juncture between the 26,000 year cycles of the solar system's journey around the spinning Milky Way. As this new energy hits our bodies, we experience changes in our perceptions, our brains, our nervous systems, and even in our DNA. Some of the physical changes that have been reported include:

- Stiffness in the upper back, shoulders, and neck,
- Transient joint and muscle pain,
- Digestive issues,
- Foggy headedness,
- Short-term memory loss, and
- Reality glitches.

Reality glitches are best described by this example: We enter another room to do something and find that it is already done, yet we have no memory of doing it. Conversely, we think we have done something and find that we did not do it, yet our memory tells us that, in fact, we did.

I have certainly experienced reality glitches, loss of short-term memory, and joint pain. I'm not saying that other causes are not at play, such as my age and my absent-minded professorness, but many others are also experiencing these symptoms.

Much of the above information comes from the book entitled *The Mystery of 2012, Predictions, Prophesies and Possibilities*. For those of you interested in digging deeper into these ideas, this book is a great resource.

Let's all work together, not to save our planet, she doesn't need ***us*** to survive, but to save and evolve the Homo sapiens species (that's us). Until next quarter, think about these ideas. ■

Joanne and Dorn Swerdlin attended the NCEO Conference in Minneapolis.

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