Swerdlin & Company
Actuaries ■ Employee Benefit Consultants

The Swerdlin Quarterly

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Dorn's Corner

Paradigm is an overused word, but in our current environment which is changing at an ever-increasing rate, it can be invaluable to focus on paradigms and their shifts. Joel Arthur Barker is a futurist and author on the subject of paradigms, which he defines as:

A set of rules and regulations (written or unwritten) that does two things:

Establishes or defines boundaries, and

1 Tells you how to behave inside the boundaries in order to be successful.

2

Let's look at one paradigm affecting every business. I'll call it The Worker Paradigm. The old Worker Paradigm is identified with the Industrial Age and can be described as follows:

■ Workers are like any other machine -- you work them as hard as you can until they wear out.

■ They are more efficient when they keep to their job -- talking to other people is a complete waste of time.

■ You have to tell them what to do -- they can't think for

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Automatic Enrollment - Is It for You?

The IRS recently issued Revenue Ruling 2000-8, clarifying automatic 401(k) enrollment (also called negative election). In a plan with automatic enrollment, an employee must fill out an election form to NOT join the plan. This approach helps overcome the inertia that keeps some employees from signing up. Instead of requiring employees to act to get into the plan, they must act to get out.

The purpose of automatic enrollment is to increase participation. The higher the participation rate, the easier it is to pass the 401(k) tests. This ultimately means that highly paid employees can save more in the 401(k) plan. Everyone wins: employees save for their retirement and management may save more for theirs.

To use automatic enrollment, three basic conditions must be met:

1 **Opportunity to receive cash.** The employee must have the right to decline payroll deductions and receive an unreduced paycheck.

2 **Notification of rights.** You must notify employees of the right to not have pay reduced and give them a reasonable period of time to make an election.

3 **Ability to change election.** The automatic election cannot be permanent. Employees must be allowed to change this election.

If a participant is enrolled under the automatic procedure and does not provide investment direction, then the plan fiduciary assumes the responsibility for the investment election.

Here is an example of how the automatic enrollment is applied:

Employer X maintains a calendar year 401(k) profit-sharing plan.

Under this plan, 3 percent of pay is automatically withheld from all newly eligible employees unless they elect not to

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In This Issue . . .

Plasti-Line, Inc.

Swerdlin & Company has provided services for Plasti-Line's Salaried and Union 401(k) plans for several years.

Although you are probably not familiar with Plasti-Line by name, you (and everyone else in America) are most likely very familiar with Plasti-Line's products. In fact, chances are strong that you look at Plasti-Line products daily!

Plasti-Line, Inc. is the leading national supplier of image and merchandising solutions for the automotive, food services, financial services, petroleum and retail markets. The company has extensive project management, engineering and manufacturing capabilities. They provide a wide variety of products including exterior signage, interior signage, menuboards, ATM environments and canopies. Plasti-Line also provides extensive services for sign installation and maintenance.

Plasti-Line focuses on large national and regional accounts. Some of their customers include recognizable names such as: General Motors, McDonald's, Wells Fargo, CVS, Ford, Dollar General, Exxon, SunTrust, Mercedes, Taco Bell and BankOne. Many of these companies have long-term relationships with Plasti-Line.

Headquartered in Knoxville, Tennessee, Plasti-Line was founded in 1944. Today the company has 1200 associates and continues to grow. In addition to their Knoxville headquarters, Plasti-Line has manufacturing operations in Knoxville; Florence, Kentucky; Columbia, South Carolina; and Fontana, California. The company has grown through business expansion, new product offerings and acquisitions. Plasti-Line operates in a dynamic and challenging marketplace, and its people are highly skilled in supporting leading companies with their image and merchandising programs. Their culture is fast-paced and performance-driven, with a strong emphasis on training and development opportunities.■

Automatic Enrollment - Is It for You?

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participate. At any time, an employee can cancel this automatic election, or change to a different percentage of pay. An employee's election (or lack of election) remains in effect until another election is made by the employee.

If employees choose to receive all of their pay in cash, then no salary deferrals are made to the plan. The employee must make this election when first hired or within a reasonable period before receiving the first paycheck. At a later date, the employee may choose to defer into the 401(k) plan.

When employees are hired, and annually thereafter, a notice is provided explaining the automatic enrollment. This notice includes the procedure and timing for exercising these rights.

We currently administer several plans which use automatic enrollment, so please call one of our consultants to see if it might be a good option for your plan.■

Double-Crossed on Cross-Tested Plans?

In 1994, the IRS made an attempt to abolish cross-tested plans (also known as new comparability plans). This proposal was defeated in Congress, and in 1998, the IRS conceded to Washington by rescinding a field directive that restricted the allocation formulas for cross-tested plans.

The IRS announced they are once again targeting cross-tested plans. Since the IRS has been unable to get the law changed regarding these types of plans, they are considering changes to the regulations to prevent or reduce the use of these plans.

The IRS has never liked cross-tested plans since they tend to provide significant benefits to owners and highly paid employees, while keeping the benefits for other employees to a minimum. A typical cross-tested plan gives a maximum benefit of $30,000 to the owner, while giving a minimum 3% to all other employees.

Since retirement plans are not allowed to discriminate in favor of highly paid employees, how can these plans be legal? Just because a person with a higher income receives a larger contribution does not mean the plan is discriminatory. Plans can use this type of formula because contributions are converted to the value of an annuity based on the retirement age of the participant.

Annuities recognize the time value of money. A dollar invested today, with compounded earnings, is worth much more at retirement age. For this reason we are allowed to give older employees, who have less time to invest, a larger contribution.

Cross-tested plans classify employees into defined groups, each with a different contribution rate. The idea here is that not every group must receive the same contribution rate, as long as on average the benefits are not discriminatory. This technique is particularly effective if you are trying to maximize benefits for certain highly paid employees.

The IRS says that any changes they make to the rules for cross-tested plans will be made on a prospective basis only. There is still time to take advantage of these plan designs. If you would like to know more about these plans and how they can benefit you, give us a call. If you wait too long, you might miss out! ■

Bowling for Big Brothers Big Sisters of Atlanta!

On February 12, several of our employees participated in the Bowl for Kids Sake, and raised $1,580 for the Big Brothers Big Sisters of Atlanta. Tony Brizzolara, Stephanie Davis, Glenda Devechio, Lisbet Flaxman, Becky McDougal, Nancy McMurtrie, Karen Miracle, Sonja Starks, Dorn Swerdlin, Joanne Swerdlin, Lee Swerdlin and Lynn Taylor all participated.

New Form 5500

You may have already heard the Internal Revenue Service (IRS), Department of Labor (DOL) and Pension Benefit Guaranty Corporation (PBGC) have significantly changed the Form 5500 for plan years beginning in 1999. The Form 5500 has been consolidated into 3 pages; however, there are now 12 schedules, many of which must accompany the new abbreviated Form 5500. The number of required schedules will vary, depending on your type of plan.

The revised reporting forms have just recently been released. Forms may be produced from specific software (as recommended by the agencies). Alternatively, a handwritten return can be submitted using original forms provided by the IRS. Since the software programs will not be available until May or June of 2000, the IRS has announced an automatic extension of 2½ months for calendar year plans; the forms are not due until October 16, 2000.

Now is a good time to ensure prior years' 5500 forms have been filed correctly. Most retirement plans such as 401(k), profit sharing, money purchase and defined benefit plans, as well as some 403(b) plans, are required to file. Welfare benefit plans with more than 100 participants, and all fringe benefit plans, regardless of the number of participants, must file.

If you're not sure if you must file Form 5500, or if you need help with the new forms, please give us a call.■

What's Happenin'

Congratulations to Rebecca and Dave Drumm on the birth of their son Dylan on March 20. Rebecca has left us to become a full-time mom to her two sons.

Congratulations are in order for recent promotions at Swerdlin: Christy Crossway to Administrative Manager and Laura Merritt to Pension Assistant.

We welcome five new employees this quarter. Randy Pflueger, our new Network Support Specialist; Kimberly Lyons, Cathy Ryan and Suzanne Whilden who have joined the DayPak team; and Asia Hall who joins our defined contribution/balance forward teams.■

Recent ESOP Conference

The Southeast Chapters of The ESOP Association held their annual regional conference in Biloxi, MS on February 18-19, 2000. Hosting of the conference is rotated among The Carolinas, Georgia, and Florida Chapters.

This year's conference was hosted by the Georgia Chapter, which includes members in Alabama, Mississippi and Tennessee.

The sessions covered a range of topics including Executive Compensation in ESOP Companies; Use of Employee Contributions to Buy ESOP Stock; What Happens After the Debt is Paid; S Corporation ESOPs; Mergers/Acquisitions - Purchase/Sale of an ESOP Company; Building a High Performance Ownership Culture; Current Valuation Issues; Repurchase Liability; and Department of Labor Updates.

Attendees from Swerdlin were Dorn, Joanne and Lee Swerdlin, Susan Petrirena, Michael Miller and Dee Robbins. Michael served as a speaker on Repurchase Liability.

Joanne Swerdlin is Secretary and Dee Robbins is Administrator of The Georgia Chapter.

We will have representatives from Swerdlin attending the national ESOP Conference in May in Washington, DC.■

Swerdlin & Company Welcomes:

Swerdlin & Company Welcomes:

Clockwise: Randy Pflueger, Asia Hall, Kimberly Lyons, Cathy Ryan, and Suzanne Whilden.

Back row (left to right): Cathy Ryan, Randy Pflueger, ar

Updated Distribution Notice

Before paying benefits from a retirement plan, a notice must be provided to participants. This notice explains participants' rights and tax issues. It also discusses which distributions are eligible for rollover to an IRA or another employer plan. The notice must be received no more than 90 days and not less than 30 days before paying benefits. The participant may waive the 30-day notice in order to receive benefits earlier.

If the participant (or spouse, in cases where spousal consent is required) does not receive proper notice, any election made is not valid. If the election for payment is not valid, the employer could still be on the hook to make future payments. This is true even if the participant has received a total distribution from the plan.

The IRS has updated their sample "Special Tax Notice Regarding Plan Payments." Although the IRS's model notice is not required, it's a good idea to use it; that way you'll know the notice you are providing is acceptable.

The model notice has been updated to reflect changes in the distribution rules such as:

- Altering the rules relating to minimum required distributions.
- Eliminating the special 5-year averaging tax treatment of lump sum distributions.
- Adding an exception to the early withdrawal penalty to pay tax levies.
- Making some hardship distributions ineligible for rollover.
- Applying the rule that plan benefits may not be rolled over to a Roth IRA.

We are available to provide a complete participant distribution package reflecting these changes.■

Dorn's Corner

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themselves.

■ You can't trust them because they will try to get away with as much as possible and do as little as possible.

■ Management expects workers to check their brains at the door because not only do workers not need to think -- they are not allowed to think.

■ Management also expects the worker to leave his or her personal problems at home and not bring them to work.

What are some of the unfortunate boundaries of this old paradigm?

■ You lose the most valuable asset in your company -- the intelligence, creativity, ideas and spirit of the people doing the work.

■ When you hold and treat people as untrustworthy, you generally get what you are looking for -- untrustworthy people.

■ You lose synergy among workers because they are kept separate.

What does the new Worker Paradigm look like? Well, I'll tell you. What? You say I'm out of space? Excuse me readers, my editor has just told me that I've exceeded my allotment of space for this Swerdlin Quarterly. Apparently there are other important articles! So I'm afraid you'll have to wait until next quarter for the new Worker Paradigm.■

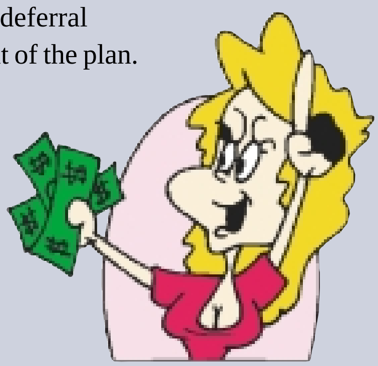
FAQ?

Q I have an employee who does not want to participate in our profit sharing plan. (Our plan does not include a 401(k) feature). Can he elect out of the plan?

A Yes, if permitted by the plan. The election is a one-time irrevocable election. Once he chooses not to be in the plan, he can never participate. Employees who elect out of the plan are still included for certain tests, so be sure to include them on the census you send to your recordkeeper.

Q My 401(k) plan provides for immediate eligibility with respect to salary deferrals but requires completion of one year of service to be eligible for the profit sharing contribution. If the plan is top-heavy, do I have to make a contribution to those employees who have not satisfied the year of service requirement?

A Yes. The top-heavy minimum contribution must be allocated to all active participants in the plan. The employees are considered participants since they are eligible for the salary deferral component of the plan.



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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:

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- 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

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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.