Swerdlin & Company
Actuaries ■ Employee Benefit Consultants

The Swerdlin Quarterly

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Dorn's Corner

Each year in the 4th quarter I announce my declaration for the coming year. This is a special year since the REAL millennium starts in 2001, although 6 billion people (including me) celebrated it earlier this year.

My declaration for 2001 is "The Year of Continuous Improvement." We plan to launch our *Continuous Improvement* program in January.

Continuous Improvement, a long-term process, describes a company culture where everyone believes that no matter what we do, it can be done better. It includes the continuing practice of making improvements in production, quality and cost to a particular process. It's a Japanese concept known as **Kaizen.**

Kaizen has three ground rules:

1. Housekeeping,
2. Muda (waste), and
3. Standardization.

Good housekeeping at Swerdlin is currently on hold as we suffer through another office expansion with paint odors, dust, loud construction noises and living out of boxes.

Muda means anything or any activity that is non-value

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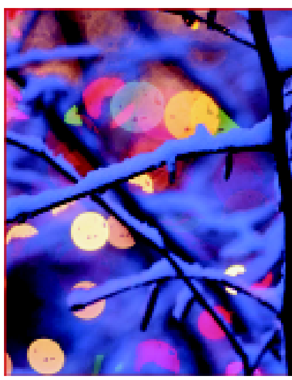
2001 Qualified Plan Limits

The following table summarizes the various limits affecting qualified plans for plan years beginning on or after January 1, 2001. We will be mailing out our quick-reference plan limit cards soon.

	1999	2000
Maximum Annual Benefit (DB)	$130,000	$135,000
Maximum Annual Addition (DC)	$ 30,000	$ 30,000
Maximum 401(k) Deferral	$ 10,000	$ 10,500
Maximum 457 Deferral	$ 8,000	$ 8,000
Compensation Limit	$160,000	$170,000
Highly Compensated Employee	$ 80,000	$ 85,000
Social Security Wage Base	$ 72,600	$ 76,200



SEASON'S GREETINGS

from all of us here at Swerdlin & Company

In This Issue . . .

featuring

Our Client of the Quarter

Dollar General

We're proud to present Dollar General, our featured Client of the Quarter. Dollar General's roots go back to 1939 in Scottsville, Kentucky. A functionally illiterate farmer, J.L. Turner, and his son, Cal, bought a big brick building at half price. It was said, "The Turners would buy anything for half price!" Owning that building was the beginning for these entrepreneurs and the birth of J.L. Turner & Son, Wholesale Notions and Hosiery.

Originally, the Turners didn't choose to be retailers. However, their aggressive buying got them overstocked on merchandise which less aggressive retailers were unwilling to buy from them. In order to survive, they became wholesale/retailers. Direct access to the final customer was essential when buying too much merchandise.

The Turners started with junior department stores. Then a whole genre of price point retailing was born in Springfield, Kentucky in 1955 - Dollar General Stores. "Dollar because every item in the store cost $1. General was used as an excuse to sell any item, like the general store in the country where everything and anything was offered for sale."

Back then, Dollar General stores offered factory seconds, overruns and anything else that could be bought for "less than value." The product mix was determined by buying opportunities and the buying justified by saying: "If it's bought right, it's half sold." The idea was that great buying equaled great selling. This opportunistic merchandising drove the Company's growth for many years. Most customers found bargains as the Turners opened more stores to sell off their excessive inventories.

From a little store in Scottsville, Kentucky, Dollar General has grown into a billion dollar-plus business. But through six decades of change, their philosophy has essentially remained the same. Their mission, "to serve others," can be seen in the positive attitudes shared by their employees, customers and shareholders.

Dollar General strives for "A Better Life for Everyone!" "Serving others" is their commitment to the communities in which their customers live and work. This can really be seen in Dollar General's efforts in community learning center programs. In partnership with leading social service agencies, The Learning Center program helps persons move from welfare to work through personal development, education and job training. Dollar General stores placed in public housing communities serve as job training sites and a resource for affordable consumable basic items. This program promotes neighborhood re-investment and re-development. There are already several centers set up in Tennessee, South Carolina and Alabama with plans for more in the future.

With more than 4,800 neighborhood stores in 25 states and distribution centers in Florida, Georgia, Kentucky, Mississippi, Missouri, Oklahoma, and Virginia, there are plans to expand to reach more and more communities.■

Your Census Data

Another year end is almost here. For calendar year plans we'll soon be requesting information necessary to complete compliance testing, filing requirements and benefit calculations. Your employee census data is the most crucial information we need.

We do our best to ensure your retirement program is in compliance, but our efforts are only as good as the information we receive. An error in the data can throw off the calculations and invalidate the compliance tests. Here are a few questions to keep in mind when collecting census data.

What is the definition of "compensation" in the plan document? This is the definition of pay used to calculate employees' benefits. Do your employees get bonuses, overtime or tips? If so, are these amounts included in the compensation? Be sure to report the correct pay. Check your totals to be certain they match the Forms W-2, plus or minus any adjustments called for in the plan.

Do you have a Section 125 cafeteria plan? Let us know if cafeteria plan deductions are included in your payroll figures and give us a list of the total deductions for each employee. Although cafeteria plan deductions might be included in your plan's definition of pay, we need to take them out for some required tests.

Have you included all hours for which an employee was paid or entitled? Did you include vacation or sick days? A few hours can mean the difference between an employee receiving a contribution or not. Hours also affect vesting, forfeitures and eligibility.

Are dates of birth listed for all employees? Without accurate dates of birth we can't determine who is eligible to participate.

Are termination dates provided for all employees who have left your company? This is our only way of knowing when an employee leaves. It helps us determine who is eligible for a benefit or who needs information about a distribution. Please also let us know if you rehire a former employee.

Have any employees taken a leave of absence? If so, tell us why, especially if the absence qualifies for the Family Medical Leave Act or is related to military service. These employees may be entitled to continue in your plan or to special consideration when they return.

Have there been any changes in company ownership or officers? These two groups of employees affect many of the required tests for your plan. Have there been any changes during the year? Also, have you hired any family members of the company's owners? They will also affect testing.

Much of the employee census data we work with comes directly from payroll vendors. Please don't assume the reports we get from them are 100% correct. At least once a year you should check the information they provide against your records. Please look for missing information, be sure totals match, and check all the items we've listed above.■

Blessed By the IRS?

What is a determination letter and why do I need one? A determination letter from the IRS states your plan meets the requirements of the Internal Revenue Code and is entitled to favorable tax treatment. In order to maintain this status, you must operate your plan according to the terms of your document. A determination letter does not protect you from non-compliance of the law; it merely provides you with an assurance that the terms of the document are within the legal limits.

Here are four common reasons for requesting a determination letter:

1. when the plan is first established;
2. when the document is amended or restated;
3. when the plan is merging into another plan; and
4. when the plan is being terminated.

A determination letter is not required by law. This program is voluntary, but strongly recommended by professionals within the pension industry. Seeking the IRS's approval can help identify areas within the document which could cause future problems.

The Service reviews the document and various required illustrations to be sure the document contains all of the required language and provisions as outlined in the laws and regulations. The IRS also reviews coverage and nondiscrimination requirements based on the illustrations provided.

The determination letter for your plan is valuable and should be kept with your plan document. If audited by any government agency, this letter is one of the first things you are asked to provide. A copy of this letter is also necessary if you request an updated determination letter.■

It's Year-End! Do You Know Who Your Employees Are?

At first glance, this seems obvious. However, the trend of employers using so-called contingent workers such as temps or independent contractors has made the term "employee" ambiguous. Even more confusing, contingent workers can include anyone from part-time and on-call employees to freelancers and former employees now providing consulting services.

By law, a plan must be maintained for the exclusive benefit of the participants and their beneficiaries. If a plan improperly excludes someone who is really an employee or includes someone who is really a contingent worker, it could be in violation of the exclusive benefit rule, and the tax-qualified status of a plan could be jeopardized.

A number of recent court decisions highlight how complicated the issue of contingent worker status has become. In one case, the court reclassified independent contractors to employees, awarding retroactive benefits.

In another case, the DOL claimed the misclassification of contingent workers was a fiduciary breach. This illustrates the potential liability for misclassifying contingent workers even if those workers don't themselves bring suit.

What's an employer to do?

1. Examine all employment relationships.

2. Review the IRS Tests which address the employer's control over the workers.

3. Carefully draft benefit plans to exclude certain classes or workers.

4. Be aware of plan eligibility requirements.

5. Provide specific language in the plan document giving the plan sponsor authority to interpret the plan.

The area of contingent workers is a very complicated legal issue best addressed by your benefits attorney. If you have questions concerning the classification of some of your workers, please give us a call. We would be glad to work with your attorney to ensure proper treatment of these workers and make sure your plan document acomplishes your goals.■

What's Happenin'

Congratulations to Debby Haywood, who married Anthony McKinley on September 30. Also to Cynthia Navan and Kenny Clark, who tied the knot on September 29. Jennifer Gregory and Jonathan Sharrow announced their engagement September 23.

During October, several of our employees participated in Breast Cancer Awareness Month. Amy Murphy, Jaynie Cormier and Donna Martin joined in a 6K Walk for Breast Cancer on October 14. Along with friends and family, the "Swerdlin Superlatives" team raised $1,500. Jennifer Krebs joined in the Avon Breast Cancer 3 day walk, and Jodi Burket and Jennifer Gregory participated in an October 21st walk for breast cancer.

Periodically, Swerdlin & Company makes special awards to our employees. In October, we presented three awards. Mitch Conn, Daily Services Coordinator , and Carol Friend, Pension Consultant, both received Swerdlin Excellence Awards. Stephanie Davis received a "Rising Star" Award for all her work in Marketing and Communications.■

Swerdlin & Company Welcomes:

Standing from left to right:
Tracey Williamson, Administrative Assistant and
Bill Tyrlick, Senior Actuarial Analyst.
Seated from left to right:
Beth Wright, Senior Actuarial Analyst and
Sheila Reed, Pension Administrator.

Check It Out!

www.swerdlin.net has a new look!
Give us your comments!

PBGC Early Warning Program

Do you have a defined benefit pension plan? Are you going through a major change in your company structure, such as selling part of the business or spinning off a subsidiary? This combination may get the attention of the Pension Benefit Guaranty Corporation (PBGC). The PBGC is a government entity that insures the retirement benefits of participants in defined benefit plans.

When a defined benefit pension plan terminates, if there is not enough money to pay all benefits, the PBGC must make up the difference. Therefore, they are concerned about the financial stability of companies that sponsor defined benefit pension plans. If the PBGC learns a company has financial troubles, they may take action to protect the retirement plan. The PBGC calls its program for identifying potential problems the "Early Warning Program."

The PBGC is concerned about any transaction that may weaken a company's financial support of its pension plan, including:

- A breakup of a controlled group, including the spin-off of a subsidiary;
- The transfer of a significantly underfunded pension plan as part of the sale of a business;
- A leveraged buyout;
- A major divestiture by an employer who keeps a significantly underfunded pension liability;
- The payment of an extraordinary dividend; or
- The substitution of secured debt by a large amount of unsecured debt.

The PBGC learns about these transactions by reviewing available public information and reviewing the 5500s filed for a company's pension plan.

The PBGC may get involved and ask for additional information if: (1) a company has a below investment grade bond rating and its pension plan has current liabilities in excess of $25 million, or (2) a company's pension plan has current liabilities in excess of $25 million and unfunded liabilities of more than $5 million.■

When In Doubt, Don't!

(Or At Least Call First!)

Are you thinking about taking a temporary loan from the plan because of slow cash flow? Do you want to write checks to terminated employees from the corporate account just to get rid of them? Don't do it! Before doing something "creative," call us. We may not tell you what you want to hear, but we'll help keep you out of trouble.

It's much easier to avoid problems than it is to fix them after they occur. Correcting errors in a qualified plan can be costly and time consuming. You can incur penalties and interest in addition to administrative costs.

If you have a question about how to handle a situation, please call. We're here to help, and a phone call can save you time and money.■

FAQ?

Q My company sponsors a safe harbor 401(k) plan. We give all eligible employees a 3% safe harbor profit sharing contribution. This 3% allows us to automatically pass the 401(k) tests, and also satisfies our top-heavy minimum. Employees are 100% vested in this contribution.

This year, we want to put in an additional profit sharing contribution. Will this also be 100% vested or can we use another vesting schedule?

A You need to refer to your plan document for the specific answer, but generally there will be a different vesting schedule for non-safe harbor contributions.

Q My insurance broker suggested I get fiduciary insurance. Isn't this the same as a fidelity bond?

A No. Fiduciary liability insurance covers plan fiduciaries and trustees for personal liability. Since personal assets of plan fiduciaries and trustees can be at risk, the consequences of not having fiduciary liability insurance can be catastrophic. The fidelity bond covers the plan but not the trustees personally.■

Dorn's Corner

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adding. Customers do not pay for these non-value adding activities.

I declared year 2000 The Year of Accountability. Holding people accountable requires establishing measures or standards. Since *Continuous Improvement* also requires standards, this makes for a smooth transition from this year to next. Management's job is to help establish and maintain these standards.

Best wishes to all of you for a happy and healthy holiday season. I'll keep you posted as to our progress with Kaizen.■

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Give us your comments!

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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.