Swerdlin & Company
Actuaries ■ Pension Consultants

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Is Your Match Correct?

How do you calculate the employer matching contribution for employees who don't participate in the 401(k) plan for the entire plan year? Suppose you have an employee who participated in the plan for only part of the year. In the first half of the year she was saving 5% of her pay but she dropped out of the plan for the second half of the year. At the end of the year she will have saved about 2.5% of her total year's pay. Would you use 5% or 2.5% when calculating the matching contribution?

Your plan document spells out how and when to calculate the match. If the plan calculates the match based on each payroll period, you should use 5%. However, if the match is made annually, you should use 2.5%.

Be sure to correctly calculate the match for those employees who join the 401(k) plan during the year. Many plans (but not all) count employees' pay only from the time they enter the plan. It's important to follow the specific rules for your plan.

Watch those bonuses. Unless your plan specifies otherwise, you should withhold 401(k) contributions from bonuses and include them for matching calculations. Even if employees can waive 401(k) withholding from their bonuses, you still may need to include the bonuses when calculating their matching percentage. Be sure to follow the definition of compensation in the plan document.■

Dorn's Corner

I declared 2002 as "The Year of Communication" for our company. I'd like to share some of the communication initiatives we've created so far.

One of our objectives is to uplift the "conversation" in our office to create a more supportive and cooperative atmosphere - an atmosphere in which people feel they belong, where they feel safe to be creative and honest.

Our first step in tackling this objective is to play a game within our Leadership Management Team. The object of this game is for each team member to recognize when they make negative and often distorted comments. These include:

- Gossip,
- Rumors,
- Jumping to conclusions,
- Making assumptions,
- Making facial expressions about others, etc.

Each time we catch our team members using negative or distorted comments or expressions, we "call them on it" and they must pay a fine. If they catch it themselves before someone else, they are exempt from the fine. The idea is

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Our Client of the Quarter

We are pleased to present Thompson, Ventulett, Stainback & Associates (TVS) as our client of the quarter. We have worked with TVS on their retirement program for several years. We're extremely proud of their recent accomplishment. They received the highest honor by the American Institute of Architects (AIA) for 2002. This award recognizes a practice that has produced distinguished architecture consistently for 10 years.

TVS began in 1968 when Bill Thompson combined his architectural firm, W.P. Thompson, Jr. Architects with Thomas V. Ventulett, III and Raymond F. Stainback, Jr. Beginning with only three principals and a secretary, the firm now has over 250 employee owners.

TVS quickly established itself as a leading architectural firm in the Atlanta area by designing the Omni/CNN Center and the Georgia World Congress Center. Since its early beginnings, TVS expanded on a national level in the markets of hotels, retail complexes and interior design. The firm's portfolio of winning design projects includes the Woodruff Arts Center Renovation, Pennsylvania Convention Center, McCormick Place Expansion, Salt Palace Convention Center and United Parcel Service World Headquarters.

TVS has been recognized with nearly 200 awards over the last three decades. The Atlanta Business Chronicle selected them as the "Number One" firm on the Top 25 List of Architectural Firms in Atlanta for 2001.

TVS is fortunate to attract and retain talented professionals because they offer opportunities for creative accomplishment, reward, and ownership to their employees. In return, the employees have a strong sense of commitment and this permeates to their clients.

The success of the firm is attributed to the employees and the type of clients they pursue. Their clients are often civic-minded entrepreneurs and established business leaders with long-range goals and commitments to the communities where they live and do business. The firm is organized around a system of largely autonomous design studios, which are responsible for overseeing a project from conception all the way through completion. This practice allows clients contact with the architects throughout the design process.

Throughout its existence, TVS has strived to bring to the local Atlanta community something that exceeds design and business excellence. The firm dedicates itself to adding value to the community by participating in pro bono work ranging from acting as a leader in annual United Way drives to building Habitat for Humanity homes.

TVS has concentrated its efforts on client satisfaction through projects that not only set the standard for excellence in design, but also serve as catalysts for economic growth and development. For more than 3 decades, TVS has designed spaces that uplift the human spirit.■

New Saver's Credit

Beginning in 2002, if you make contributions to a 401(k) plan or to an IRA, you may be eligible for a tax credit called the "saver's credit." This credit can reduce the amount of federal income tax you pay. The amount of the credit is based on contributions you make and your credit rate (see illustration below). The credit rate ranges from 10% to 50%, depending on your adjusted gross income and filing status - the lower your income, the higher the credit rate.

The maximum contribution taken into account for the credit is $2,000 for an individual or $4,000 for a married couple filing a joint return. For more details, check out our web site at www.swerdlin.net. ■

Credit Rates

Married Filing Joint		Head of Household		Single, Married Filing Separately, or Qualifying Widow(er)	
Adjusted Gross Income	***Saver's Credit***	***Adjusted Gross Income***	***Saver's Credit***	***Adjusted Gross Income***	***Saver's Credit***
$0 - $30,000	50% of contribution	$0 - $22,500	50% of contribution	$0 - $15,000	50% of contribution
$30,001 - $32,500	20% of contribution	$22,501 - $24,375	20% of contribution	$15,001 - $16,250	20% of contribution
$32,501 - $50,000	10% of contribution	$24,376 - $37,500	10% of contribution	$16,251 - $25,000	10% of contribution
Over $50,000	No Credit Available	Over $37,500	No Credit Available	Over $25,000	No Credit Available

The DOL is Serious About Fidelity Bonds

While the law has always required retirement plans to have a fidelity bond, the Department of Labor (DOL) is now enforcing this requirement. DOL auditors are instructed to make sure plans have adequate bond coverage. Inadequate coverage can result in a lawsuit.

A fidelity bond is a type of insurance. It protects plans against losses from acts of fraud or dishonesty by a fiduciary or any other person handling funds or other property of a plan. It does not cover investment losses.

The bond covers all fiduciaries and anyone else handling plan assets. This includes trustees, plan administrator(s), members of an investment committee, and anyone having discretionary control over plan assets. The IRS defines handling funds as:

- Physical contact with invested assets such as cash, stocks or any other investments; or
- The ability to secure possession of the assets.

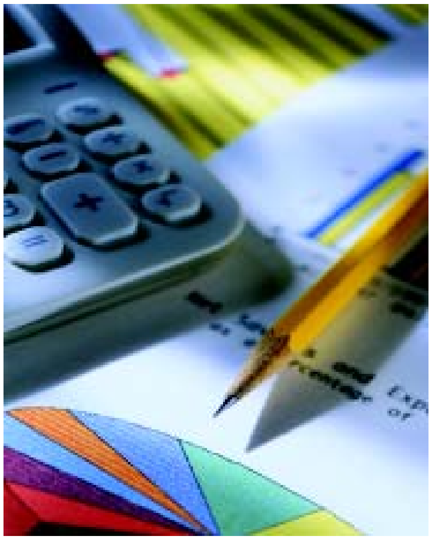
Bond coverage is required for at least 10% of the plan's assets that are handled, with a minimum of $1,000. The maximum bond required is generally $500,000. Bonding applies to your plan if 95% or more of the plan assets are:

- Qualifying employer securities,
- Participant loans,
- Assets held by regulated financial institutions (e.g., banks, insurance companies, registered broker dealers),
- Mutual fund shares, or
- Assets in the individual account of a participant over which the participant may exercise control.

If 95% of your plan's assets do not fall within these categories, you may need additional coverage.

A fidelity bond is different from fiduciary liability insurance. Fiduciary liability insurance protects individual fiduciaries from breaches in responsibilities which may require restitution of lost assets. A fidelity bond protects the plan while fiduciary insurance covers individual liability. A fidelity bond may be purchased with plan assets, but fiduciary insurance may not.

Your insurance broker can help you purchase a fidelity bond or increase your plan's coverage, if necessary. ■



Keep Your Plan Out of Trouble!

Follow these simple rules to protect the tax-favored status of your retirement plan:

1. **Read your plan document.** It answers many questions such as eligibility requirements, payment procedures and participants' rights. You can't go wrong if you follow your plan document.
2. **Get some help.** Don't try to do it all yourself. Retirement plan laws are complex and constantly changing. It's hard enough to keep up with your own business. Use experts. That's why we're here.
3. **Don't confuse independent contractors with employees.** Regardless of what you call them, if you control how, when and where your workers do their job, they are employees and are eligible for your plan.
4. **Get your tax deduction.** Employer contributions are due before your company tax return is filed. Otherwise, you can't take a tax deduction.
5. **Get contributions in on time.** If you have a 401(k) plan, you must deposit employee contributions to the plan as soon as possible but no later than the 15th business day of the following month.
6. **Treat participant loans like any other investment.** Participant loans are an investment of the plan and should be treated accordingly. This includes charging a reasonable rate of interest, requiring repayment and documenting the loan (loan agreement, promissory note and amortization schedules).
7. **Use the correct definition of pay.** Does the definition of pay include bonuses, cafeteria plan reductions and other fringe benefits? Look at the plan document to see how it is defined.
8. **Watch those minimum benefits.** If your plan is top-heavy (60% of the benefits in the plan belong to key employees), you must provide minimum benefits to your non-key employees. The minimum required benefit depends on the type of plan.
9. **Don't ignore part-timers.** You can't automatically exclude part-time employees from your plan. You need to track hours worked by part-timers as well as full-time employees.
10. **Consider all divisions or businesses.** If you own more than one business or your business has more than one division, you may need to combine them for your retirement plan. You may consider them separate businesses but that doesn't mean the IRS agrees.
11. **Use plan assets only for the benefit of participants.** Once you deposit money into the plan, it's no longer a company asset. It is a crime to use it for anything other than plan purposes.■

What's Happenin'

Congratulations to Adam Pozek who was elected to the Board of Directors of the local chapter of the American Society of Pension Actuaries (ASPA).

We're proud of Michael Miller who recently participated on a panel at the Southeast Regional ESOP Association Conference in St. Pete. Swerdlin was a sponsor of the conference.

Congratulations to Susan Petrirena who is now Defined Contribution Manager and to Michael Miller who is Director of Consulting Services at Swerdlin.

Kudos to Trey Stephens and Kim Hall on their recent promotions.

Welcome to Stephanie Eagle who has joined the Actuarial Team as an Administrative Assistant.

We celebrated Carol Friend's 10th Anniversary with Swerdlin on January 31st.

Congratulations to Julie Isom, Nancy McMurtrie and Sonja Starks on their 5th Anniversary with Swerdlin.

Joanne Swerdlin was re-elected to the Board of Directors of Women in Pensions (WIPs).

Thanks to the Swerdlin Employees who raised close to $1,000 at Christmas time for the Salvation Army's Angel Tree. With the company's match, we collected nearly $2,000.■

Tax Credit for Small Businesses

EGTRRA (Economic Growth Tax Reconciliation and Reduction Act) includes provisions aimed at encouraging small employers to establish new retirement, SEP and SIMPLE plans.

The law provides an income tax credit for administrative and retirement education expenses for any small business adopting a new qualified retirement plan. The credit is 50% of the first $1,000 of such expenses for each of the first three plan years (maximum credit is $500 each year).

An employer is eligible for this credit if:

- The employer has 100 or fewer employees earning more than $5,000;
- The plan covers at least one Highly Compensated Employee; and
- If using a payroll deduction IRA arrangement, the plan covers all employees with three or more months of service.■

We Will Protect Your Future!

Swerdlin & Company, along with many professional benefits organizations, is fighting to protect the retirement system. We are committed to our clients and to the retirement system to do whatever it takes to ensure your rights and provide stability for your future. Please keep up with our web site, as we will be posting information about the recent and upcoming proposed legislation as a result of Enron.

Dorn's Corner

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for us to become more aware of how much negative and destructive conversation we generate.

Another communication initiative we've begun is posting certain financial information each month. This is the beginning of a more comprehensive program of "open book management." Later this year, four of us will attend a conference to learn more about this concept.

An organization needs a free flow of information to survive and grow. When information is not shared, people fill in the gaps with gossip and rumors that pollute the atmosphere, affecting the entire organization.

I'll keep you posted on the progress of our "Year of Communication."■

FAQ?

Q Employees terminating from our company often receive severance pay. Should we continue to take salary deferrals from this money?

A If the severance pay is made in one lump sum, then salary deferrals should be deducted unless the participant signs an election form stopping deferrals. Ongoing severance pay for a period after termination of employment is not considered compensation for plan purposes; therefore, deferrals are not permitted.

Q When a terminated participant is being paid out, can I have his money transferred to the corporate checking account, issue one check to the participant and one check to the IRS for taxes?

A No. Once money has been deposited into the plan, it must not be co-mingled with corporate money. The IRS would perceive this as a prohibited transaction.■

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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.