Swerdlin & Company
Actuaries ■ Pension Consultants

Shaping Your Retirement World

The Swerdlin Quarterly

Your News Source on Retirement Plans

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What's Inside

In Every Issue

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Traders Play, Participants Pay

Everyday it seems the mutual fund scandal is growing as more and more fund houses fall under scrutiny. News reports keep throwing out terms like market timing and late trading, but do you know what these terms mean? And more importantly, as a plan fiduciary, do you know how they affect your plan and participants?

Market Timing

By definition, market timing is a strategy that exploits the fact that a mutual fund's net asset value (NAV) may not reflect real-time activity. Although market timing is not illegal, it does affect overall performance results and that is why this practice has recently fallen under such scrutiny. To avoid market timing, many funds place limitations on the number of times during a specified period that an investor can move in or out of a fund without incurring a penalty.

One example of market timing is when a fund allows a select group of investors to buy and sell more frequently, without penalty, than the majority of shareholders. In this situation the fund family has discriminated against the majority of their investors and adversely affected the overall investment returns. If your plan holds a fund that has allowed discriminatory market timing, your participants may have suffered performance losses related to this practice.

In order to discourage market timing, many funds have recently begun assessing redemption fees when an investor in a fund has a purchase and a sell within a thirty-day period. Although this may work to discourage individual investors from market timing, it wreaks havoc on 401(k) plan participants. A fund within a 401(k) plan is held by the plan and not by

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Dorn's Corner

As announced in my last Dorn's Corner, 2004 is the Year of Generating. I began this year with a request to all of our employees to think of a way to "generate" themselves. Each employee reported to me an idea to generate this year. At the end of the year, I will ask each employee how they did. The generating goal could be small or it could be a personal vision of who they want to become. I told them it should be a "stretch" or out of their comfort zone. I list below a brief summary of some of the responses:

- The most frequent goal among our staff relates to exercise and losing weight.
- Next is the goal to seek out people not heard from in a long time.

Others include:

- Learn to play hockey. "I started lessons this week."
- Learn to dance. "I'm going to take dance lessons. It will be a challenge and something I've always

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Client of the Quarter

Cane Creek

We are pleased to feature Cane Creek Cycling Components, Inc. as our Client of the Quarter. The company is based in Fletcher in the Blue Ridge Mountains of North Carolina. They manufacture specialized bicycle parts, and all their products are based on the premise of "technology that makes sense." In 1999, Cane Creek established an ESOP to give every eligible employee an ownership position. Swerdlin & Company has worked with them on their ESOP since its inception.

The company began in 1975 as a Japanese-owned bicycle brake assembly operation under the name Dia-Compe, supplying US based bicycle assembly plants.

Their business strategy included the acquisition of products with patented technologies, and they created a niche market for products with "technology that makes sense." One of their innovative products, called RockShox, brought front suspension to bicycles.

In 1992, the sale of the RockShox division funded the purchase of the facility in Fletcher by Brad Thorne, making it an American-owned company.

In 1995, the company launched a line of products under the brand name of "Cane Creek," with a distinct image. These products included rear shocks for full suspension bikes, threadless headsets, wheel hubs and disc brakes. During 1996 and 1997, the product line was expanded to include unique wheels and seat posts, and the Cane Creek brand became recognized all over the world.

The company name was officially changed to Cane Creek Cycling Components in 1999. At the same time, the owners set up an Employee Stock Ownership Plan and created an ESOP trust for the benefit of the employees. By completing a leveraged buyout in 2001, Cane Creek became a fully employee-owned company supported by the growing "employee ownership mentality" of its employees.

A joint program of the Asheville Area Chamber of Commerce and Manufacturer's Executive Association presents annual Manufacturing Leadership Awards. In 2002, Cane Creek received awards in the Most Significant Improvement category in both Management Practices and Customer Focus. In addition, they received an award in the Significant Improvement category for Employee Involvement, Supplier Partnership, Technology, Inventory Management and New Product Development.

Today, Cane Creek has a worldwide reputation for excellent quality, uniquely designed components and impeccable customer service. The company is proud of its philosophy of partnership and integrity in working with small outside inventors.■

CANE
CREEK

Technology That Makes Sense

For more information about the company and its products, log on to www.canecreek.com.

A Win-Win Tax Situation

It's tax time! Your employees are sifting through their shoe boxes of receipts looking for all those medical expenses, hoping this year they might have enough to actually get a medical deduction on their tax return. But, it never fails --- coming up with more than 7.5% of your adjusted gross income is almost impossible. So all those hours of sorting through receipts was for nothing.

Someone making $50,000 a year needs more than $3,750 in medical expenses in order to claim a tax deduction. That's easy if you don't have insurance or if you have a lot of medical expenses. But what about those who go to the doctor once or twice a year, fill one or two prescriptions, buy a pair of glasses or wear disposable contacts? All these necessary expenses to stay healthy are paid with hard earned AFTER-TAX dollars.

Is there a way to get a tax deduction for these expenses?

Yes! If you offer a medical Flexible Spending Account (FSA), those expenses can be paid with BEFORE-TAX dollars.

A benefit program that has been available for many years can help make those expenses "100% deductible" regardless of adjusted gross income. The program is called a Cafeteria Plan. With this plan, medical expenses, dependent care expenses, and many types of insurance premiums can be paid with before-tax money. A cafeteria plan helps alleviate the escalating costs an employee incurs each year.

This benefit program is not just a win for your employees but also for you as an employer. You don't have to pay FICA on the amount the employees set aside in their flexible spending accounts. The savings on FICA can often offset the cost of maintaining the plan.

Participation rates in cafeteria plans have historically been very low. Often the employer and employees don't understand the savings associated with a cafeteria plan. If you want to learn more about this subject, mark May 18, 2004 on your calendar. We are conducting a free workshop on the Future of Cafeteria Plans as part of our quarterly Swerdlin Educational Services.

Can't make it to the workshop but want to learn more? Let FlexPak, Swerdlin & Company's new cafeteria plan administration, help. Contact Lee Swerdlin at 770.396.6601, Ext. 353.■

Welcome New Employees

From left to right:

Alicia Turner, Lisa Wren, Sharon Kleiman. Seated - Jose Ferman.

What's Happenin'

We held our fourth annual Penny Drop and Bake Sale in December. It was another successful year, and we raised $650.00. With this money we bought lots of toys and clothes for a family of four and delivered them just before Christmas. We also gave them gift certificates for groceries.

Congratulations to Trey Stephens who passed the ASPA C-2(DB) exam and has now completed all the requirements for the Qualified Pension Administrator (QPA) designation. Congratulations also to Aaron Cox who passed the ASPA PA-1(B) exam in December. (ASPA is the American Society of Pension Actuaries.)

The annual Southeast Regional ESOP conference was held in Charleston in February. Attending from Swerdlin were Dorn Swerdlin, Joanne Swerdlin, Lee Swerdlin, Dee Robbins, Susan Petrirena, Melissa Spencer and Connie Woodmansee. The Swerdlin group challenged the conference attendees with a game of ESOP Jeopardy.

We welcome new employees Jose Ferman, Sharon Kleiman, Alicia Turner, and Lisa Wren.

Adrian Johnson received a Swerdlin Individual Excellence Award for Community and Continuous Improvement. An employee can be nominated by his or her co-workers to be considered for this award. Way To Go Adrian!

Anniversaries we are celebrating this quarter: Carol Friend 12 years, Susan Petrirena 9 years; Julie Isom, Kim Hall, Nancy McMurtrie and Sonja Starks 7 years, Melodi Kline 6 years; Becky McDougal 5 years; Randy Pflueger and Rick Rothschild 4 years.■

Go To The Top With A KSOP

Have you considered using your 401(k) Plan as an Employee Ownership vehicle?

401(k) plans are both the fastest growing employee benefit plan and the fastest growing vehicle for broad employee ownership. To use a 401(k) plan for employee ownership, a company can match employee contributions with its own stock. Company stock is available from treasury stock, newly created shares, shares bought by the company, or shares bought by the 401(k) plan with company cash contributions. An attractive characteristic of the 401(k) allocation method is its requirement that employees make a financial commitment to the plan in order to receive shares. These plans are commonly known as KSOPs.

If you already have a 401(k) plan, adding a match in company stock will cost less than administering a separate ESOP. Although stock valuations are required, the cost of adding a company stock match rather than a cash match is minimal.

Leveraging a KSOP can be a more cost-effective way to match 401(k) contributions. This allows a company to borrow money and repay it with pre-tax dollars, as well as use tax-deductible dividends to repay the loan. If the value of the KSOP shares goes up as the loan is repaid, the company can pay part of the future match out of appreciation in the share price rather than cash.

Leveraging a KSOP also has advantages for the employee. It commits the employer to make matching contributions until the loan is repaid. In some cases, there may be a windfall for participants if the stock price appreciates more rapidly than anticipated.

If you think a KSOP might be right for your plan, please let us discuss this opportunity with you.■

Termination May Not Be Terminal

It's bound to happen. George, who has been with the company for what seems a lifetime, decides to retire and takes a full distribution. A short time later, he wants to be back with the guys and earn a little extra income. It so happens the plant supervisor needs an extra hand, so George is hired back doing the same job he did before, but on a part-time basis. It's wonderful to have him back. Everything's great. He's working; he's part of the team again; and he's getting extra income to supplement his retirement benefits from the company. Wait a minute.... he took what and he's doing what????

Unfortunately, this scenario may be great for the company and for George but not so great for the retirement plan. As a general rule, a participant may not receive a distribution from a retirement plan until an actual "separation of service" occurs. What constitutes "separation of service"? Let's examine George's situation.

His employer is certainly not prohibited from rehiring him but must ensure the qualified status of the plan is not jeopardized. If George terminates, receives retirement benefits and is immediately rehired, even on a part-time basis, has a true separation of service occurred? Is this really a distributable event? The IRS usually takes the position that a true separation of service has not occurred and that a retirement benefit should not have been paid. A distribution to the participant under these circumstances may be a prohibited transaction and could disqualify the plan.

So what can you do for George? What if you hire him back as an independent contractor?

In a previous case, the IRS ruled that this was acceptable. As long as George meets the IRS criteria for an independent contractor, the plan is not jeopardized by his distribution and will retain its qualified status.

The moral of this story: Before you rehire an employee, consider the possible impact on your retirement plan. Your Client Manager is here to help.■

FAQ

Q. I have just received a request from Swerdlin & Company asking for details on every person who was employed in our company at any time during the year. Why do you need this information?

A. To accurately perform the many required compliance tests, we need to see census data on everyone. Some of these tests include verifying that every eligible participant is counted, reviewing information on rehired employees, and confirming their reentry into the plan. This information is also necessary for the coverage section of the Form 5500.

Q. In the past, we had to make refunds because our plan failed the Actual Deferral Percentage (ADP) test. This year the testing will be completed later than usual, so what happens if we don't make the refunds until after March 15, 2004?

A. Refunds made after March 15, 2004 are subject to taxes and penalties. A Form 1099 is prepared for each affected participant showing the refund amount that must be included in the individual income tax return for 2005. The employer pays a penalty of 10% of the refund (excluding income).■

Traders Play, Participants Pay

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the participant, so any activity in the fund is used to determine if a redemption fee will be charged.

For example: Joe Participant has held a balance in the XYZ fund for three years, but no longer contributes to this fund. He has not moved any money in or out of XYZ for the last year. XYZ fund charges a redemption fee if the account holder sells units within thirty days of a purchase into the fund.

Jane Participant invests a portion of her payroll deduction into XYZ on a weekly basis. Joe decides to transfer out of the XYZ fund and is hit with a redemption fee even though he had no activity in the fund for the prior 30 days. He suffers the loss because Jane made a contribution.

Obviously, this practice is not fair. It seems the redemption fees are more a knee-jerk reaction to the problem rather than a well thought-out solution. The result seems to harm the people who deserve the most protection.

Late Trading

Investment Company Act Rule 22c-1 specifically prohibits this practice. Late trading is equivalent to placing a bet on a race after the race is finished. As with market timing, this practice can directly impact the overall performance of the affected fund.

Now more than ever, it is important for plan fiduciaries to review their plan investments and overall investment policy. Even if you were prudent in selecting no-load or low cost funds for your plan participants, you should periodically review the funds within your plan. Some no-load funds have suddenly become loaded at the participant level. If your plan does not currently utilize the services of an independent investment consultant, it may be time to hire one. At the very least, you should review your current fund choices to determine if any funds have been named in the on-going investigation. If you do have funds that are under scrutiny, you have some homework to do and some difficult decisions to make.■

Dorn's Corner

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thought about doing but never had the courage to step out of my comfort zone and do!"

- Stop and enjoy my friends.
- Take a course to improve myself.
- Take the first step towards achieving a professional designation.
- Have one of my photographs published.
- Get control of my finances.

My favorite: "I want to evolve into a person I am proud of."

Another comment I received that made me feel good was "thanks for always pushing us to grow, both as an employee and as a person."

Swerdlin & Company generated itself at a recent Business Management Conference of the National Institute of Pension Administrators (NIPA). The Great Game of Business, which we started last year, became a central theme of that conference, and our firm was exhibited as the case study. We generated our company as a leader in the NIPA group, at least regarding the Great Game of Business!

As the new year progresses, be thinking of something you would like to generate within yourself. It doesn't have to be anything huge. Remember to focus on what you *want* to be rather than what you *don't want* to be.■

FASB Adds New Pension Disclosures

The Financial Accounting Standards Board (FASB) Statement Number 132 (FAS 132) was recently revised to require companies to provide more details about their:

- Plan assets,
- Cash flows,
- Benefit obligations,
- Benefit costs, and
- Other relevant information.

New requirements include a breakdown of plan assets by category, such as equity, debt and real estate. Additional requirements include disclosing the expected rate of return and target allocation percentages.

The cash flow disclosures in FAS 132 require projections of future benefit payments, as well as an estimate of next year's contribution. In addition to expanded annual disclosures, the new requirements improve the information available to investors in interim financial statements.

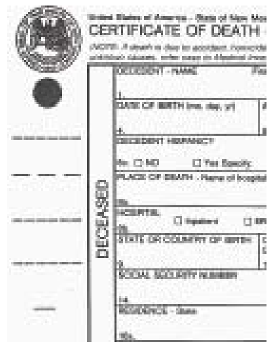
Companies are now required to report the various elements of pension and other postretirement benefit costs on a quarterly basis.

Generally, the new guidance is effective for fiscal years beginning after December 15, 2003. To obtain more information, please call your Client Manager. You can also review FAS 132 at www.fasb.org/fas132r.pdf.■

NEW from Swerdlin

'Til Death Do Us Part

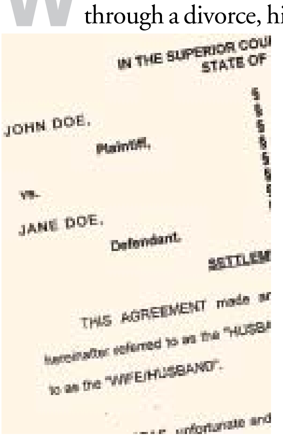
Federal courts have recently experienced a flurry of cases regarding proper payment of death benefits from qualified plans. They have consistently ruled plan beneficiary designations preempt state law. These beneficiary designations are legal documents and must be maintained by the Plan Sponsor. Plan Sponsors are responsible for processing death benefits in accordance with the participant's beneficiary designation. Mistakes can result in costly litigation as well as potentially paying additional benefits or penalties.



Swerdlin & Company can now retain your Plan's beneficiary designation forms for you in hard copy or electronic format. You can be sure the information is always available when you need it, and we can help you assess the situation in the event of a participant's death.■

Divorce, Pension Style

When a participant in a qualified plan goes through a divorce, his or her plan benefits



may be divided as part of the divorce decree through a court-approved Domestic Relations Order (DRO). The Internal Revenue Code is very specific on what must be included in a DRO in order for it to be a Qualified Domestic Relations Order (QDRO). Swerdlin & Company is available to assist you in the review and processing of potential QDROs.

Even though we are not attorneys and cannot render a legal opinion, we can verify that all components required by the tax code are present and help ensure your plan's QDRO procedure is followed.■

Web-Cast

Swerdlin & Company will soon be going live on the Internet! We are currently researching and testing several options that will allow us to conduct web-casts. We hope to have this technology in place by the end of March. Once it is up and running, we will be able to offer additional educational workshops, "meetings" with out-of-town clients and advisors, and employee meetings for multiple locations at the same time. So don't touch that dial - - stay tuned for more information.■

2004 Workshop Schedule

February 12th	Participant Loans *Presentation available at www.swerdlin.net*
May 18th	Future of Cafeteria Plans
August 12th	ESOPs
November 11th	To Be Announced

Shaping Your Retirement World

Knowing the complexities and understanding the choices and options available in the retirement world shouldn't be a focus of your job; it's a focus of ours. We help you shape your retirement program to better meet the needs and goals of your company and your employees. Swerdlin & Company is the only resource you need to answer all of your retirement plan questions. Our job is to make yours easier!

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