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Published By

Swerdlin & Company

Actuaries ■ Employee Benefit Consultants

5901 Peachtree Dunwoody Road
Building B ■ Suite 170
Atlanta, GA 30328

770.396.6601

770.396.0067

info@swerdlin.net

www.swerdlin.net

Committee

Chairman: Carol Friend

Contributors: Julie Isom, Kathy Latour,

Donna Martin, Cynthia Navan-Clark,

Adam Pozek, Mike Raker, Travis

Rosenbaum, Dorn Swerdlin, and Joanne

Swerdlin

Layout & Design: Stephanie Davis

Editorial Assistance: Dee Robbins

New Dollar Limits

The following table summarizes the various limits affecting qualified plans for plan years beginning on or after January 1, 2006. You can go to www.swerdlin.net and click on plan limits for a printable pocket limit card.

CONTEST: If you received a 2006 IRS Dollar Limit card, you can win a prize! Our printer made a typo; the first 10 people who identify the error in an email to sdavis@swerdlin.net will win a special prize. ■

IRS Dollar Limits	Code Section	2005	2006
Defined benefit plan annual benefit limit	415(b)(1)(A)	\$170,000	\$175,000
Defined contribution plan annual addition limit	415(c)(1)(A)	42,000	44,000
Maximum 401(k) deferral	402(g)(1)	14,000	15,000
Maximum 401(k) catch-up deferral	414(v)(2)(B)(i)	4,000	5,000
Maximum SIMPLE deferral	408(p)(2)(E)	10,000	10,000
Maximum 457 deferral	457(e)(15) & (c)(1)	14,000	15,000
Definition of HCE (highly compensated employee)	414(q)(1)(B)	95,000	100,000
Annual compensation limit	401(a)(17) & 404(l)	210,000	220,000
SEP coverage	408(k)(2)(C)	450	450
Social Security Taxable Wage Base		90,000	94,200

Dorn's Corner



Hello to all my readers. First, I would like to thank those readers who very kindly commented on my last Dorn's Corner (see Dorn's Corner, 3rd Quarter, 2005)

that discussed the "Corporate Lifecycle." I plan to write a sequel in one of my upcoming Corners to continue this subject.

In the fourth quarter I traditionally make my declaration for Swerdlin & Company for the coming year. I declare 2006 as the Year of Continuity.

Through the years we at Swerdlin have struggled with one particular challenge. This challenge is keeping a process, procedure, or

other structure alive, well, and continuing to serve its original purpose. We are pretty good at generating ideas to help our company develop, and we are okay at getting these ideas implemented in our culture. Keeping them alive and active has been difficult for us.

At a strategic planning meeting in early October, we identified our most important focus for 2006. It is to create and implement structures to keep processes we start alive and kicking.

An idea came to us from Randy Oven, who is involved with the Systems-Centered Training & Research Institute (SCTRI). This idea provides a process for implementing any goal, and it is called the Force Field. It sounds like an

Honda Client of the Quarter Carland

We are pleased to present Honda Carland and Acura Carland as our Client of the Quarter. Swerdlin & Company has provided administrative services for their 401(k) plan since 1998.

Honda Carland has been in business almost 30 years, making it one of the oldest full-service dealers in the Atlanta area. The company began in Roswell in 1976 and added Acura Carland in Duluth in 1990. The first Honda Certified Off-Site, Stand-Alone Service Center was opened in Alpharetta in 2000.

All locations are privately owned by the same individuals. Their goal is to create long-term customer loyalty in sales, parts, service and body-shop facilities. This is achieved by consistently providing the type of service that makes their customers feel they received more than their money's worth. They attribute much of their customer loyalty to the loyalty of their own employees. Carland has over 250 employees at its three locations. Forty-two of these employees have been with the company more than 10 years.

Carland feels the customer is their most important asset and demands professionalism and product knowledge

from their employees. To achieve this goal, they employ a full-time trainer whose sole responsibility is education.

The parts consultants and technicians constantly update their training through American Honda Motor Company. All technicians take ASE training classes to stay current on the latest automotive technologies and procedures. The 80 plus employees in the Service Department have over 250 years of combined knowledge. This enables them to offer a broad range of services to fit their customers' busy schedules. They service over 160 cars per day with a 99% turn-around for same day service. They offer local shuttle service while cars are being serviced.

Honda/Acura Carland has one of the most prestigious and recognized Body Shop/Collision Centers in the Atlanta area. They excel in repairing vehicles to a Pre-Accident Condition using the latest equipment and procedures outlined by the company. They are recognized by organizations such as I-CAR, ASE Certified and PPG Paint & Refinish Industries.

In 2004 Honda Carland sold over 4,000 new and used vehicles and expects to meet or exceed this volume for 2005.

The dealership earned the prestigious "President's Award" in 2004 - the fourth year in a row. This award is based on the number of cars sold, a volume requirement for parts and services, and the customer satisfaction responses on the quality of service and treatment received at each encounter with a Honda Carland employee. These surveys are conducted by Honda Corporate as well as independent firms.

Acura Carland sold over 2,000 new and used vehicles in 2004 and sales were over 1,700 through October, 2005. Acura Carland received the Acura Precision Team-Dealership of Distinction Award for its exceptional performance for the year 2004, the third year they have received this award. This honor is reserved for those dealerships that excel in all facets of their operations: sales, service, and customer satisfaction. Acura Carland is the only dealer in Georgia that met or exceeded the awards standards established by American Honda Motor Company.

Carland participates in numerous charitable efforts through churches and schools as well as many direct donations to local causes.

For information on available new and used cars, prospective customers can visit the showrooms and various departments within the dealerships or go on line to Hondacarland.com or Acuracarland.com. ■



Don't Get Spoofed!

How secure is your identity? Today's rapidly evolving technology forces us to ask this question every day. It seems with each step we take forward, criminals are lurking in the shadows waiting for a misplaced foot! As computers get more and more powerful, it becomes much easier for clever crooks to steal your personal information.

Does it seem as if you have taken on a second career as a junk mail detective? You are not alone; in fact, it is estimated that spam emails account for 60% to 80% of all emails sent worldwide. This issue is forcing businesses to spend millions of dollars on filtering software to eradicate this crippling drain on the system. Even the government is getting involved. Congress has recently passed the Can-SPAM Act which enables law enforcement to pursue the senders of unsolicited email and punish them with hefty penalties for each email sent. This Act also includes prison sentences for serious offenders.

In addition to the drain on resources, spam is rapidly evolving into an even bigger problem - that of security. Examples include Nigerian

money scams, devastating Trojan viruses, and offensive advertisements.

Think you are safe? Think again. Computer criminals are migrating away from complex viruses and back to old-fashioned "social engineering," or more simply, tricking you into giving up your private information. These new attacks are called "spoof attacks," but they are no laughing matter. Scam artists create official-looking emails that appear to come from legitimate sources such as eBay, PayPal, or even your own bank. The email says your account is in some kind of trouble, and that you need to log-in to verify it. When you click the link, you are taken to a fake web page that "spoofs" the official web page in every way, including the address bar. Once you log into this fake site, your information (and soon after, your money) is in the criminal's hands.

The only way to prevent this kind of fraud is to be vigilant. Never fill out forms

or click links in an unsolicited email that requires you to log-in or share personal information. For example, if you receive an email from your financial institution requiring you to check your account, simply delete the email and access your account in the usual manner. If you receive a fraudulent email, you can forward it to the fraud department of the company that supposedly sent it. Most banks and legitimate online sites now have teams dedicated to dealing with this kind of fraud.

Remember: be safe, be vigilant, and don't get spoofed!■



FAQ

Q How do I report payroll information when a payroll period overlaps the end of our plan year?

A All pay should be reported when it is actually paid. Therefore, if the payroll period

begins in one plan year and ends in the next, the salary should be reported in the next plan year when it is paid to the employee.

Q Our plan year starts January 1, but the first payroll period begins January 6. When should I begin deducting salary deferrals for a participant entering the plan January 1?

A Deductions should begin with the first full pay period in the new year. In your example, this would be the period beginning January 6.

Q If a participant terminates December 28 but his final pay period ends January 4, how do I report his final pay and salary deferrals?

A The information should be reported in the year the salary was paid and the deferrals deducted. This participant's final pay and salary deferrals should be reported in the new year.■



More Services From Swerdlin

On September 12, 2005, Swerdlin & Company created Swerdlin Benefits Company. Focusing primarily on group health and welfare plans, this new service expands our capabilities in the area of employer-sponsored benefit plans. Ron Collins, Senior Vice President, and Susan Pitts, Vice President, join Swerdlin to lead this practice.

Ron has thirty-five years of experience in employee benefits, primarily as a third party advisor. His experience includes managing a healthcare Third Party Administrator (TPA), working in the home office of an insurance company, and holding executive positions in large public and privately-held companies. Because Ron has experience in both the advisor and the executive role, he is uniquely qualified to serve his clients.

Susan brings twelve years of experience in employee benefits to our new practice. In addition to working directly with clients and vendors, she has first-hand experience in managing and administering group insurance programs. Her main focus will be communicating plan changes to employees, organizing enrollment meetings, and working

with employers in implementing new programs.

According to founder Dorn Swerdlin, health and welfare is not an entirely new area for Swerdlin & Company. "For many years we have provided Postretirement Medical actuarial calculations in accordance with the Statement of Financial Accounting Standards (SFAS 106) and, in recent years, we have provided cafeteria plan administration. With our new practice, clients can turn to Swerdlin for a coordinated, integrated approach to their benefit plans. Full service benefit consulting is our goal."

The Swerdlin Benefits Company approach can be defined by a simple acronym ACS - Analysis, Consultation and Stewardship. In addition to being a conduit of information, we serve as a client advocate, providing ongoing guidance in this ever-changing, increasingly complex area of business. This is especially true for companies going through changes such as ownership, workforce



composition, acquisitions, locations, legal status and other issues that might impact their employees.

Swerdlin Benefits Company can address any area of employee benefits. Today, clients are focusing on the increasing costs of health plans, the area of the most intense interest and with the most perplexing challenges. Ron and Susan can assist you in finding the right program for your needs. Please feel free to contact them at 770-396-6601. ■

What's Happenin'



We are celebrating the following anniversaries this quarter: Tony Brizzolara, 19 years; Laura O'Connor, 11 years; Cynthia Navan-Clark, Jodi Burket, Lee Swerdlin and Trey Stephens, 7 years; Beth Wright, 5 years; Jim Callea, Ricky Cox and Adrian Johnson, 3 years; Emily Spencer and Alicia Turner, 2 years.

Congratulations to Laura O'Connor who has earned the QKA (Qualified 401(k) Administrator) designation to add to her other credentials.

Connie Woodmansee participated in the American Heart Walk and also in a fund raising campaign for St. Jude's Childrens Research Hospital. Swerdlin employees contributed \$350.

Kudos to Tony Brizzolara who was quoted in the Bloomberg.com newsletter on the issue of the high cost of retiree health care.

Congratulations to Trey and Cristina Stephens on the birth of their son, Alexandru, on September 11. Mother and baby are doing fine, and Trey has almost caught up on his sleep!

Wedding bells will soon ring for Jennifer Saunders who announced her engagement to Benjamin Sanders on September 17. We wish them all the best.



Adam Pozek spoke on new laws and regulations at our most recent 2005 Client Workshop.

Adrian Johnson again worked with the Susan G. Komen and Lee Denim 10th Fundraiser for Breast Cancer Research and Jodi Burkett participated in the Susan G. Komen Race for the Cure. Swerdlin employees donated \$560 to this worthy cause.

IRS Targets S-Corps

In late July 2005, the Internal Revenue Service (IRS) announced it would begin auditing about 5,000 randomly selected 2003 and 2004 Subchapter S corporation (S-Corp) tax returns. These audits begin late in 2005 and are part of the IRS's National Research Program which began five years ago.

Why is the IRS focusing on S-Corps? Perhaps it is because today S-Corps are the most popular corporate form of business. According to Kelly Luttrell, an IRS economist, 3.2 million returns were filed by S-Corps for 2002. That was up from about 725,000 in 1985. The total assets held by S-Corps in 2002 rose to more than \$2 trillion. IRS Commissioner Mark W. Everson states the IRS needs a better understanding of what this S-Corp popularity means for tax compliance. He says, "This research is critical for achieving our strategic goal of ensuring that corporations and high income individuals are paying their fair share."

The audits are expected to be an intense, line-by-line scrutiny of all entries reported on the tax return. The IRS may also

scrutinize compensation paid to shareholder-employees. In S-Corps, there is a tendency to underpay owners in order to minimize Social Security and Medicare taxes. Another possible area of scrutiny is reported deductions. The IRS is looking for deductions taken for items that should be capitalized as well as travel and entertainment expenses that lack the necessary records and receipts to support them.

How do you protect yourself? You cannot do anything to avoid selection for audit, but look on the bright side. The odds are about one in six hundred that your company will face an audit under this program.

If you receive a letter from the IRS selecting your

company for audit, contact your tax advisor immediately. To ease the audit process, make sure your receipts and other documentation to support the deductions claimed are readily accessible.

If we currently assist you in administering your S-Corp plan, we can help you prepare for an IRS audit. ■



What's Happenin'

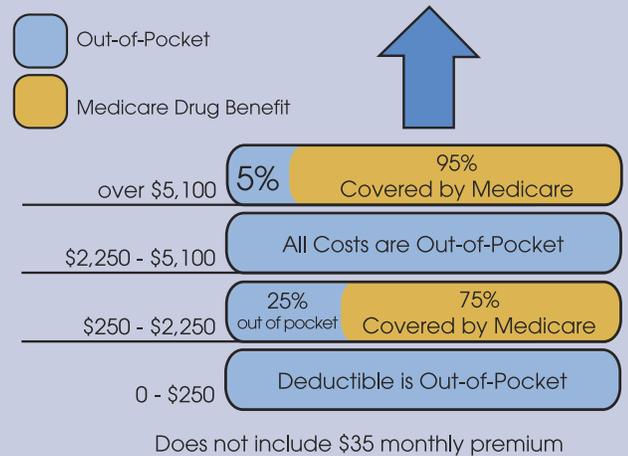
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Money-making projects for our Christmas charities continue. On October 22, we held our second annual Halloween carnival, playing games for prizes and raffling photographs taken by "Swerdlin Shutterbugs." Our annual Halloween Costume Contest was held October 31 with winners being determined by a quarter a vote. We raised \$375 from these two events. Each Tuesday throughout the month of November, we enjoyed a Sweets Sale with each team baking and selling their favorite desserts. This added another \$100 to our charity fund.

For highlights from these events and others, see our special pull-out section "Swerdlin & Company's Year in Pictures." ■

Oops!

We wish to thank our client, Unique Electronics, for discovering and bringing to our attention an error in the Medicare Part D article in our last quarterly newsletter. We inadvertently stated the percentage to be paid by Medicare as 25% when in fact it is 75%.

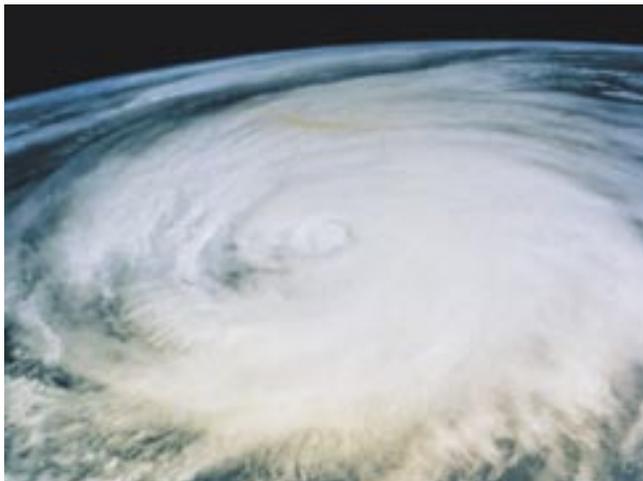


Please accept our apology for any confusion resulting from this misstatement. We hope this table will make this complicated issue easier to understand. ■

Disaster Relief for Hurricane Katrina

Hurricane Katrina is one of the most devastating natural disasters to strike our country in recent history. In response to this tragedy, both the Internal Revenue Service (IRS) and Congress have enacted measures to allow storm victims to use their retirement funds to help them get back on their feet. This relief is only available to victims of Hurricane Katrina in Alabama, Mississippi and Louisiana. This relief does not apply to victims of Hurricane Rita.

The first significant relief came from the IRS on September 15. IRS Announcement 2005-70 covers plan participants who lived or worked in the affected areas, as well as those with certain family members (spouses, dependents or lineal ascendants/descendants such as parents and children) who lived or worked in those areas. According to the announcement, plans that do not normally allow participant loans or hardship distributions can grant such in-service withdrawals to Katrina victims who request the money by March 31, 2006. The hardship distributions are not restricted to the normal items (college tuition, medical expenses, etc.) and can be granted for any reason.



Plan sponsors can rely on a written statement from participants describing their eligibility for the special distributions and specifying the amount requested. Further, normal paperwork requirements, such as promissory notes for loans, can be postponed as long as the plan sponsor makes a “good-faith effort” to go back and obtain all necessary documentation after the fact. Plans that elect to take advantage of this relief must be amended no later than the end of the 2006 plan year.

On September 23, President Bush signed the Katrina Emergency Tax Relief Act (KETRA) into law. This legislation creates

additional flexibility for storm victims but is more restrictive regarding eligibility for the relief. Specifically, KETRA’s provisions only apply to plan participants whose principal residence was in the affected area on August 25, 2005, and who suffered an economic loss from the storm. Unlike the IRS Announcement, KETRA relief is not available based on the participant’s work status or the status of a participant’s relatives.

Under KETRA, affected participants can request loans or hardship distributions of up to \$100,000 no later than December 31, 2006. For hardship distributions, the 10% early withdrawal penalty and mandatory tax-withholding are both waived. In addition, participants can spread the amount of the withdrawal equally over three years for income tax purposes. Participants can further delay their income tax liability by repaying some or all of the amounts withdrawn. These repayments are treated just like rollovers and

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Knowledge is Power

Let’s face it – employee benefit plans can be confusing and cafeteria plans are no exception. Employees are offered so many choices - it is hard for them to keep everything straight.

Enrollment/educational meetings are a great way to explain cafeteria plans to employees.

An effective meeting includes:

- any changes from the prior plan year,
- enrollment packets containing specifics of the plan, and
- worksheets to help determine contributions and tax savings.

Employees should be encouraged, perhaps even required, to attend these meetings.

It is very important that employees understand the options available in their cafeteria plan. For example: if debit cards are offered, employees should be provided with a description of how to use the card and the rules and regulations of their debit card provider. Employees should also be given instructions on how to submit a manual claim, along with the required substantiation to process the claim.

After employees are enrolled in the plan, they should receive a welcome packet including:

- instructions on who to contact with questions,
- confirmation of their application,
- a recap of the initial enrollment meeting, and
- instructions on how to use the website to:
 - research claims
 - check account balances
 - access administrative forms.

Swerdlin & Company’s FlexPak Cafeteria Team can help design an educational program that will work for your company. For more information, please contact Cynthia Navan-Clark at 678.775.5551. ■

Win-Win? Think Again!

Fiduciaries such as plan sponsors and trustees are required to operate retirement plans for the exclusive benefit of participants. This means that fiduciaries cannot significantly benefit from their relationship with the plan. While the law allows plan fiduciaries to receive incidental benefits, the well-being of the participants must always be the motivating factor in all plan-related decisions. If not, the fiduciary could be in violation of the self-dealing rules.

Self-dealing rules completely prohibit a plan sponsor from receiving any benefit from its control over retirement plan assets. The following examples demonstrate how easily these rules can be unintentionally violated and may help guide your plan-related decisions in the future.

It is common knowledge banks offer more advantageous financing options to clients with larger banking relationships. Some plan sponsors select their bank to act as custodian of their plan in order to increase their banking relationship and receive more favorable credit terms. On the surface, this sounds like a “win-win” situation,

but any benefit the plan sponsor receives from this relationship is considered a prohibited self-dealing transaction.

Restrictions also apply to benefits received by plan trustees or an owner/officer of the company. An investment advisor may approach a plan sponsor with a package that provides investment management services for the plan and discounted individual financial planning for the executives of the firm. If the trustees take advantage of this offer, they violate the self-dealing rules. No individual can personally benefit from any transactions associated with the plan.

To correct a self-dealing transaction, the plan sponsor must first determine the economic value of the benefits received in violation of the rules and deposit that amount into the plan. Next, the plan sponsor must “undo” the transaction that created the violation. Finally, the plan sponsor is subject to Internal Revenue Service (IRS) and Department of



Labor (DOL) excise taxes and penalties of up to 35% of the amounts involved.

Depending on the nature of the violation, the DOL has a program called the Voluntary Fiduciary Correction Program (VFCP) that allows sponsors to voluntarily file a detailed explanation of the corrective action taken. If the proper procedures are followed, the DOL will issue a no-action letter and waive some or all of the penalties.

If you are concerned about a transaction involving your plan, please give us a call. We are available to work with you and your attorney to correct the situation. ■

Hurricane Katrina

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do not have to be made to the plan from which the money was initially withdrawn. Instead, they can be deposited into any qualified retirement plan or IRA.

KETRA also provides additional flexibility for participant loans. Participants with outstanding loans are permitted to suspend payments for up to one year without causing a default; however, interest continues to accrue. The loan repayment period is extended by the length of payment suspension. In addition, the limits on available loan amounts are doubled under KETRA. Eligible participants can request a loan of up to the lesser of \$100,000 or 100% of their vested

account balance. Plans that take advantage of any of the KETRA provisions must be amended by the end of the 2007 plan year.

Both the IRS Announcement and KETRA are optional, and plan sponsors are not required to offer these added features. If you have any questions about how the various hurricane relief measures affect your plan, please give us a call. ■



invisible shield that protects sci-fi characters from getting zapped by the enemy's ray gun. But it's not, and it works like this: Start with any goal, then list on one side of the page "restraining forces" and on the other side "driving forces." As the name implies, restraining forces include all obstacles that get in the way of achieving the goal. Driving forces are the forces that help us work towards our goal.

After the lists are complete, evaluate the restraining forces and pick the easiest one to change. Next, develop action steps to minimize or reduce this selected restraining force. You gain momentum each time you reduce a restraining force. Repeat the process until the restraining force is weakened enough to be overtaken by the driving force. Then your goal is achieved.

As an example, we started this process for our 2006 planning at Swerdlin & Company. Our goal is to create structures to keep processes continuing. We listed restraining forces as described above. An abbreviated version of our chart is shown above.

GOAL	
Create Structure(s) to Keep Processes Continuing	
Restraining Forces	Driving Forces
Goals are not always clear.	This structure will enhance our accountability.
We have trouble staying focused.	When we focus, we get things done.
Our follow-through skills need improvement.	These structures should help us grow to the "next level."

For our first step, we selected the restraining force, "we have trouble focusing." We decided this was the easiest one to deal with. We came up with several action steps, including:

- Prepare an agenda for each meeting to be emailed to all attendees at least two days before the meeting.
- Stick to the agenda.
- Minimize interruptions in the meetings (cell phones, etc.).
- Stick to strategic issues rather than operational issues.
- Minimize conversation "noise" (ambiguity, contradiction, or redundancy).

- Confirm information before we act.

As these action steps are implemented and established as ongoing processes, we then pick another restraining force from our list to work on. As you can see, these action steps are neither earth shattering nor do they require deep thinking. They only require Continuity.

Since this is a new process for us, we'll have to see how it goes. I'll keep you posted on our progress.

Best wishes for a Happy and Healthy Holiday Season! ■

Seasons Greetings



*from all
of us at*



Swerdlin & Company

Actuaries ■ Employee Benefit Consultants

✉ 5901 Peachtree Dunwoody Road
Building B ■ Suite 170
Atlanta, GA 30328

☎ 770.396.6601

📠 770.396.0067

@ info@swerdlin.net

🌐 www.swerdlin.net

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