The Swerdlin Quarterly
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Who Needs An Investment Committee?

Does your company offer a qualified retirement plan to employees? If the answer is yes, then you need an Investment Committee!

The main purpose of an Investment Committee (IC) is to select and oversee the investment portfolio of the retirement plan(s). Generally, the IC is made up of several employees, and the size of the company dictates who serves on the committee. For smaller employers, owners or partners are usually on the committee. In larger companies, staff from legal, finance and/or human resources might serve. Selecting and monitoring plan investments is a fiduciary responsibility and should not be taken lightly.

Since the IC is responsible for selecting the investments for all participants in the plan, the committee should follow certain procedures. First, establish the investment guidelines for the plan. Factors that affect this decision include the type of retirement plan offered and the age of the participants. These factors help the committee establish a policy to determine the types of assets to offer in the plan.

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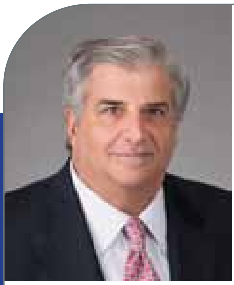

Dorn's Corner

This quarter I'd like to talk about one of our country's greatest problems: *DEBT*! Our government and our people operate under the practice of "buy now, pay later." The only problem is that we and our government don't always have the resources to pay the piper when "later" arrives. We don't save very well, but we sure know how to spend. We live in a short-term and instant gratification mode with little concern for our own future or that of our children and grandchildren. Our corporations are judged by their quarterly financial results. Long-term results usually get little attention.

Our government shifts current costs to future generations. The social security system is a great example of this shift. Social security is on a "pay as you go" funding approach which leaves our children and their children with an enormous burden. No reserves are available to fund future benefit payments. Our private pension system is burdened by legislation which intends to help the private sector provide retirement benefits. My experience, however, is that these rules cause employers, especially small employers, to abandon their retirement programs because of burdensome regulations and limitations. You may have heard of the

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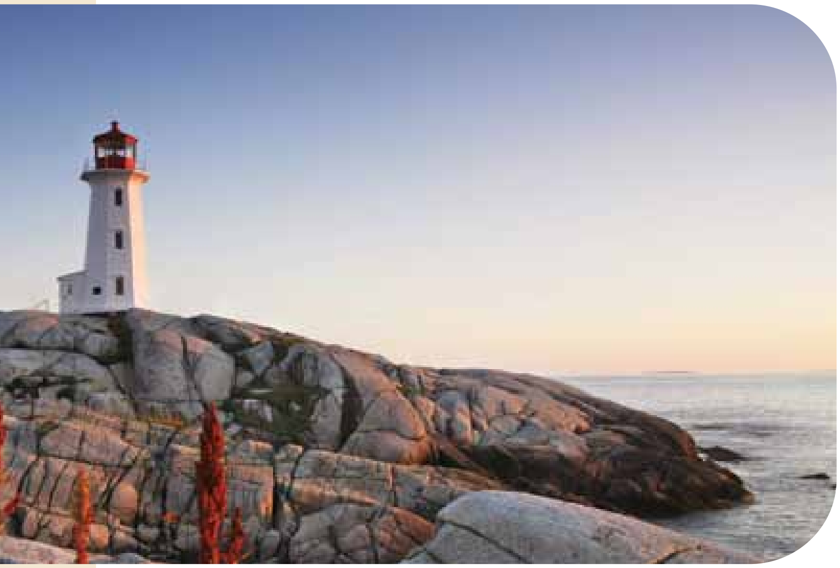
How Do Safe Harbor Plans Work?



Basically, a Safe Harbor plan is a 401(k) plan with special contribution provisions. They allow the plan to automatically pass the ADP/ACP tests for salary deferrals and matching contributions, as well as the Top-Heavy test.

The two types of Safe Harbor contributions are described below.

The first contribution type is referred to as the 3% non-elective contribution (NEC). The plan cannot require a participant to be employed on the last day of the plan year or work at least 1,000 hours during the plan year in order to share in this contribution. The participant is entitled to this contribution even if he made no salary deferrals during the plan year. The amount of this contribution is equal to 3% of compensation, and the NEC is immediately 100% vested. It is not available for in-service withdrawals before age 59½. The NEC can either guarantee the 3% contribution at the beginning of the year, or it can allow the employer to decide before the year-end if they will make the contribution.

The second type of Safe Harbor contribution is the matching contribution. A participant has to make a salary deferral in order to share in this match, and it is 100% immediately vested. It has the same withdrawal restrictions as the NEC. The basic Safe Harbor matching formula is 100% of the first 3% of pay deferred, plus 50% of the next 2% of pay deferred.

A Safe Harbor 401(k) feature can be added to an existing ***profit sharing plan*** if more than 3 months remain in the plan year. A Safe Harbor feature may not be added to an existing ***401(k) plan*** during the plan year; it has to be amended effective the first day of the next plan year.

A new 401(k) plan must also have at least 3 months remaining in its short plan year in order to start a Safe Harbor. The only exception to the 3-month rule applies to a brand new business which can set up a Safe Harbor plan with as little as 1 month in the first plan year.

A Safe Harbor notice must be provided within a reasonable time before the beginning of the plan year, generally not less than 30 days and not more than 90 days.

The notice must be easily understood by the average employee. It must be comprehensive in its description of the employee's rights and obligations under the plan, and must include the following information:

- Safe Harbor matching or non-elective contribution formula provided by the plan;
- Any other contributions under the plan, or matching contributions to another plan based on the deferrals contributed to the plan;
- Conditions under which these other contributions are made to the participant;
- If the Safe Harbor contribution will be made to an employer plan other than the 401(k) plan, the name of such plan;
- Type of pay considered "compensation" for contribution purposes;
- Maximum amount of such compensation allowed to be deferred;
- The process for making salary deferral elections;
- Withdrawal and vesting provisions applicable to the contributions; and
- How to obtain additional information about the plan.

It is possible to stop the Safe Harbor **matching** contribution during the year if the following steps are taken:

- The plan must be amended to remove the Safe Harbor matching provision;
- Plan participants must receive 30 days notice before the Safe Harbor contribution is discontinued;
- Participants must be given the opportunity to change their deferral elections during the 30-day notice period; and
- Perform ADP/ACP testing for the entire plan year.

It is now possible for a plan to reduce or eliminate the Safe Harbor **NEC** during the plan year, if the above steps are followed and provided the employer has a substantial business hardship.

If you want to find out more about Safe Harbor 401(k) plans, feel free to give your Client Manager a call. ■

F.A.Q.

Q One of our participants has a Qualified Domestic Relations Order (QDRO), authorizing us to pay a stated amount to his spouse. When can I pay her?

A The timing of a distribution to the spouse (Alternate Payee) due to a QDRO is not limited by the plan provisions regarding participant distributions. Generally, the spouse can take the money immediately or when requested.

Q If the Alternate Payee is under age 59½ at the time of distribution from a qualified plan, is the distribution subject to the 10% premature distribution tax penalty?

A No, a distribution as a result of a QDRO is a special exception to this rule.

Q We have no service requirements for making salary deferrals to our 401(k) plan; employees can start deferring as soon as they are hired. Is it my responsibility to ask if they made deferrals to another plan this year before we hired them?

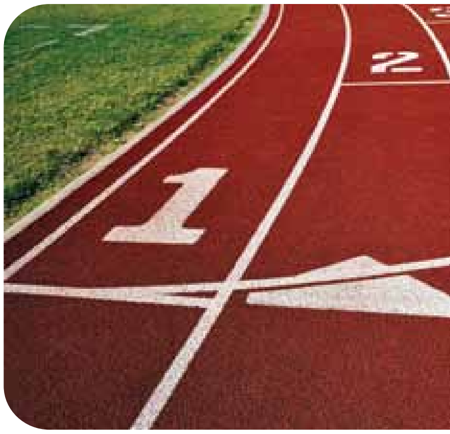
A No. It is the employee's responsibility to be aware of the annual salary deferral limits – currently $16,500. This limit applies to the employee, not the plan. If his total deferrals exceed this annual limit, he is taxed and penalized on the excess when he files his personal income tax return.

Q Why is it important that I know if a new hire has previously worked for our company?

A If your new hire has ever been a participant in the plan, then he is immediately eligible to participate on his rehire date. He does not have to wait until the next entry date. If you treat this person as a new hire, and it is later discovered that he should have been eligible immediately, the employer has to make up any deferral and match he could have received had he been allowed to participate on his rehire date.

Keeping Your 401(k) Participants on Track

Here are some thoughts and suggestions you might use when talking to your employees who participate in your 401(k) plan (and those who don't).



1. Contribute as much as you can afford. Remember, the salary deferral is before-tax, so saving $10 a pay period will not reduce your pay by the entire $10.
2. Increase your contribution each time you get a raise.
3. If your employer makes a matching contribution, contribute at least enough to get the full match.
4. Learn about the investment options available in the plan. If you have other savings, discuss with your investment advisor which funds he recommends so you can have a diversified portfolio. Meet with your advisor at least once a year.
5. Don't change your investments based on what has already happened. Once you and your advisor have decided on the investments, keep them until there is a reason to change them, and not because of what the market is doing on any particular day.
6. Don't withdraw money from the plan unless it is the only option. If you take a hardship distribution, you will lose the potential income that money would have earned if it had stayed in the plan. If you take a loan, you will be paying it back with after-tax money. Then when you retire or terminate and take a distribution, you will pay taxes again on the same money.
7. Be aware of the plan provisions – when you can enter the plan, when you can take money out. If the plan does not allow loans or hardship distributions, be sure you have some emergency money available.
8. If you have to stop making salary deferrals because of financial reasons, start up again as soon as you can afford to do so. ■

Welfare Plans & Form 5500

Retirement plans are not the only plans that require a Form 5500 filing. Your welfare plan may also be required to file. The Employee Retirement Income Security Act of 1974 (ERISA) requires participants be provided with important information about plan features, funding and fiduciary responsibilities. Also, if the plans are consolidated under a single "wrap" document, all benefits are filed under one Form 5500.

When determining whether or not to file, you must count all active enrolled employees as well as terminated participants still receiving benefits. For welfare plans, "Participant" is any employee enrolled in the plan. A plan with more than 100 participants at the beginning of the plan year must file a Form 5500 and related schedules. Under certain conditions a plan with fewer than 100 participants may also be required to file.

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Georgia Ports Authority

Recently, we were engaged by a new client, the Georgia Ports Authority (GPA) to help communicate changes to their retirement plans. They currently offer a Defined Benefit (DB) Plan which is employer funded and a 457(b) Defined Contribution (DC) Plan which is employee funded.

Our first set of meetings was to communicate to participants changes in their service providers and investment fund line-up for the 457(b) plan. We spent almost a full week in Savannah along with their new investment advisor, explaining the changes and introducing their new fund choices. The meetings were challenging in that GPA had been with their previous provider for over 30 years.

Naturally, participants were concerned and a little nervous about the changes. However, as the meetings progressed and word got out, participants warmed to the idea of a new provider and a new fund line-up. As a result, many people increased their rate of participation in the 457(b) plan.

Effective October 1, 2011, GPA is adding a new employer-funded 401(a) DC plan with a matching component, which will be paired with the existing 457(b) plan. All employees hired after July 1, 2011, will automatically go into the new 401(a) plan. Employees currently participating and/or eligible for the defined benefit (DB) plan were offered a choice between remaining in the DB plan or freezing their DB benefit and moving to the 401(a) plan.

Back in April, we began working with GPA on individualized participant statements. These gave participants enough information to make a decision on which employer-funded retirement program will provide the best benefits at retirement. These statements included projections of benefits to retirement age for both the DB and the 401(a) plans. The DB plan provides a guaranteed monthly benefit at retirement for life, while the 401(a) plan provides a lump sum cash payment at retirement or termination.

During the meetings, Julie Isom was invited to view the facility from a crane. Also participating in the meetings, but not pictured, were David Benoit and Mary Butina.

Since the DB and the 401(a) plans are inherently different, the DB benefit was converted to a "lump sum" in order to make a reasonable comparison of both plans' retirement benefits. Because the 401(a) benefit is affected by investment returns, we provided several different projections for these benefits. We included several different participation rates and rate of return scenarios to help participants better understand the risks and rewards of both plans.

Once the statements were completed, we conducted meetings over a two-week period to teach participants how to read their statements and to answer any questions they had about both of the employer-funded plans. The meetings were a success and many participants walked away with a better understanding of their retirement benefits.

Kudos to GPA for taking the time and investing the resources to educate their participants on the choices they were asked to make. GPA truly cares about their employees and wants what is best for them long-term.

If you find yourself in a situation where specialized communication is needed, please do not hesitate to call us. ■

Who Needs An Investment Committee?

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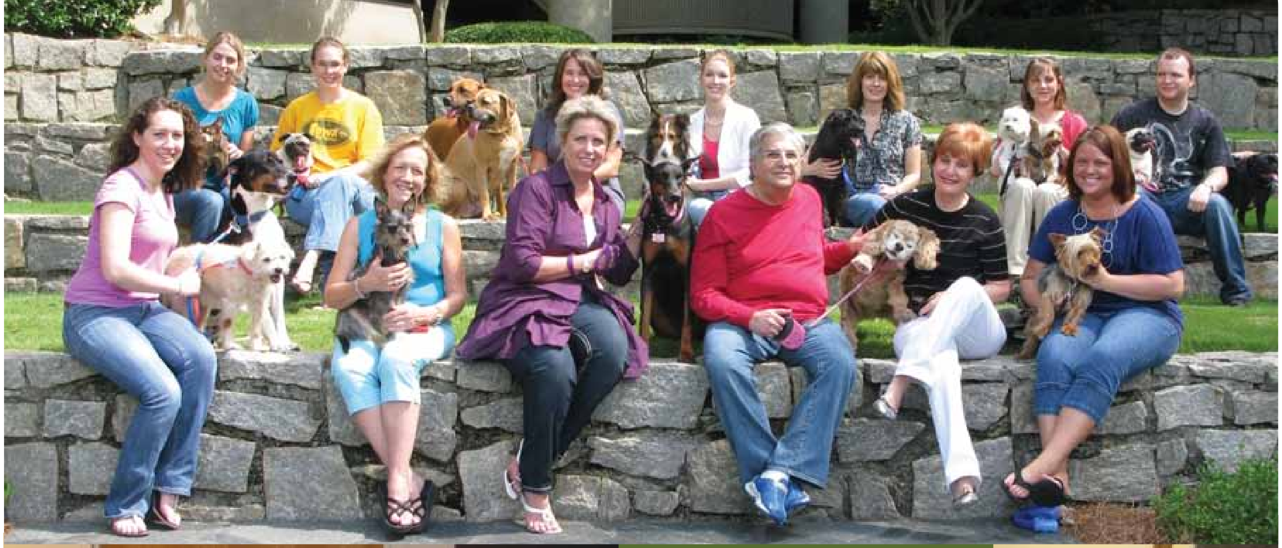
The Investment Policy Statement (IPS) should define how the IC invests, monitors and protects plan assets. This important tool documents that plan fiduciaries have established a reasonable process for selecting and maintaining plan assets.

The IPS generally states the type of investments that may be purchased and may also identify types of assets the plan should never hold. The IPS may also describe these duties of the IC:

- Selecting and retaining appropriate members for the IC,
- Retaining a professional investment advisor or consultant,
- Reviewing historical performance and forecasting plan investments,
- Monitoring investment performance on a routine, periodic basis,
- Comparing fund results to stated fund objectives,
- Reviewing and maintaining required Fidelity Bond coverage, and
- Identifying and reviewing costs associated with plan investments.

The Investment Committee and the Investment Policy Statement are vital in monitoring plan assets. If your plan does not have both, then make it a priority to create them. For assistance with establishing an IC or an IPS, contact your plan's financial advisor or attorney. ■



Top: Swerdlin & Company Take Your Dog to Work Day 2011

Left: Kristin Hamilton and Tiffany Enoch show off their pets…no they are not twins!

Right: Adrian Farnon's pet, Rosie, stands for a treat!

What's Happenin'

We welcome new employees this quarter: **Steve Olson**, Manager of the Actuarial Team; **Heesun Lee**, Health Actuary; and **Joanna Terry**, Actuarial Assistant. We also welcome **Amy Letts** as a Benefits Specialist in the Cafeteria Department, **Ana Marenco** as a Customer Service Representative on the Daily Recordkeeping Team, and **Jean Macdonald**, Administrative Assistant, at Penret Services.

Anniversaries we celebrate this quarter: **Melissa Spencer**, 19 years; **Glenda Devechio**, 16 years; **Kathy Latour**, 13 years; **Michele Gresham** and **Patti Williams**, 8 years; **Alicia Turner**, **Jan Smith**, **Lorene Pierre**, **Rita Teague**, **Tammy Fiacco** and **Tianna Barran**, 3 years; **Gary Anderson** and **Scott Foreman**, 1 year.

Congratulations to **Lorene Pierre** and **Rita Teague** who were recently promoted to Pension Assistant.

Connie Woodmansee, **Ed Ilano**, **Melissa Spencer**, **Scott Foreman** and **Susan Petrirena** attended an Eggs 'N ESOPs meeting for the New South Chapter on July 19, hosted by Web Industries.

The Georgia Chapter D "Mountain Roadrunners," a local motorcycle chapter, was recently recognized for their second quarter 2011 newsletter edited by **Connie Woodmansee**.

Kathy Latour and **Kim Hall** flew to Las Vegas, Nevada to attend the Western Benefits Conference on July 24-27.

On July 20, **Cynthia Clark** and **Glenda Devechio** attended the Employee Benefits Institute of America (EBIA) Conference in Minneapolis, Minnesota.

Marjorie Cade visited the "circus" on September 9, when our client, Peachtree City, hosted their annual Peachtree City Benefits Fair. Healthcare consultants from around the area enjoyed this circus-themed event.

Lee Swerdlin, President-Elect of the ASPPA ABC Atlanta Chapter, attended the leadership meeting on August 5 in Minneapolis, Minnesota.

Penret Services, Inc. is a sponsor of the Cystic Fibrosis Cycle for Life Event, to be held on October 1, 2011 in Holliston, MA. Several employees are participating as "Team Penret." Some will be riding, while others will be volunteering and supporting the Team. For more information, please visit http://www.cff.org/LWC/StaceyMoquin.

Connie Woodmansee attended the Open House for one of our new clients, FarraTech. She won tickets for the 93rd Annual PGA Championship in John's Creek, Georgia.

June 26 was **National Take Your Dog to Work Day**. Swerdlin provided treats and toys and the dogs had a fun time visiting all the offices.

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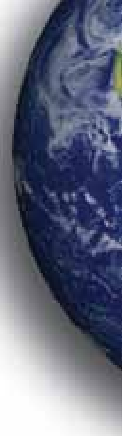

At Swerdlin & Company, we're taking an active role in conserving the world's resources by printing on FSC-certified paper from well-managed forests with environmentally-friendly ink. Please recycle this newsletter when you are finished reading it.

Dorn's Corner

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three-legged stool to provide for retirement: the individual, the employer and the government make up the three legs as sources of retirement funds. So if we don't save as individuals, and our employers are getting rid of retirement benefits, then the government is left to provide for its citizens' retirement. I've discussed above how unsuccessful our social security system will be in providing pensions for our future retirees. The system will face even more stress if we continue to lessen our focus on individual and employer savings for retirement.

Another example of the government's failure to provide financial security is how the government spends way more than we can afford. Our national deficit is out of control.

We have seen what happens when we buy houses we can't afford, and when greed becomes rampant in our financial markets and elsewhere. Who knows if or when our economy will become stable and sustainable.

So what can one person do to improve this unhealthy financial behavior? I believe that a major fundamental problem is our citizens' lack of financial literacy. The culture in America has led us to engage in spending without concern for our ability to pay.

I have been working with The Actuarial Foundation (TAF) to deal with the financial illiteracy problem. TAF provides, through its "Quench the Thirst" campaign, financial information packages to high school teachers at no charge to them. The packages contain material for use in the classroom to teach basic financial concepts: how to balance a checkbook, budgeting, and so on. Thousands of teachers throughout the country are teaching this material and a long waiting list exists for teachers who wish to participate.

TAF also operates a "Consumer Education" program where we provide financial material to adults. The latest project is to distribute this material through public libraries all over the country.

I'll bet you are all thinking, "How can I help?" Well, I have an answer for you! You can do one or both of the following:

1. Teach your children how to handle money while they are young.
2. Contribute $250 to TAF which provides one package of financial material to a high school teacher. Multiples of $250 are gratefully accepted; contributions of smaller amounts are also welcomed. The website for The Actuarial Foundation is: www.actfnd.org and deductible contributions can be made online.

I believe our economy can be significantly improved as our people learn and apply some basic financial concepts.

Hope you had a great summer. ■

Welfare Plans & Form 5500

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Many welfare plan sponsors are not aware of their responsibility to file annual Forms 5500. If these forms are not filed timely, the DOL assesses penalties. To encourage welfare plan sponsors to file delinquent Forms 5500, the DOL provides a voluntary compliance program. This program allows plan sponsors to become current with significantly reduced penalties. Reduced penalties range from $750 to $2,000 per filing per year.

If you are unsure about your filing requirements, or if you would like more information regarding welfare Form 5500 filings, please contact your Client Manager. ■

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