

The View from Level VII™

EXECUTIVE BENEFITS

409(A) Deferred Compensation Compliance Update - Are You Ready?

By now you have likely begun a process of review and modification of your nonqualified plan(s). Much has been written, including in *The View*, about the **required changes to deferred compensation plans** under IRC 409(A), which came about in last year's American Jobs Creation Act. In sum, the new legislation requires that "any form" of [nonqualified] income deferral plan (qualified plans are exempt) be brought into compliance with stricter rules on plan contributions, controls and distributions.

By now companies should have identified: 1) which plans and amounts are grandfathered under the old rules; 2) which plans and provisions are subject to the transition rules; 3) whether plans are "operationally" compliant; 4) how to meet the **compliance deadline of 12/31/05**; and 5) what advisors can best assist with this time sensitive matter.

Point 3 above has become extremely important. We have seen where many advisors only focus on whether a plan [legal] agreement is compliant, and overlooked whether plans have and continue to be operationally compliant. Some questions to consider:

- Have any plan distributions been made during 2005 (separation of service, disability, hardship, etc.)?
- Have any bonuses been deferred under a plan during 2005?
- Does your executive Employment Agreement mention income deferrals?
- If there is funding set aside for a plan, have these funds been co-mingled pre and post deadline?

These are a few of the **important administrative questions that must be addressed by year-end as well**. Time moves quickly, it may be very costly to you and/or your executive — executive participants are responsible under 409(A) — without timely action.

Weir Financial Resources, a financial advisory firm uniquely dedicated to providing solutions for Executive Benefits, Business Continuity and Private Wealth Planning, stands ready to assist your company with such important planning matters.

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EMPLOYEE BENEFITS

Medical Benefits Update — What to Expect Next

Based on recent discussions with our local carriers, we anticipate annualized rate **increases of approximately 12%** for insured plans renewing in the first calendar quarter of 2006. Most of our clients have annual open enrollments during the first quarter, and continuing current benefits with 12% cost increases is unacceptable for their financial plans.

The following alternatives can help balance budgets and employee expectations.

- New carrier relationships and alternative participating provider networks.
- Experience-rating to take advantage of favorable employee demographics and claims history. This normally requires at least 50 medical benefits plan participants.
- Self-insurance, especially for Prescription Drug benefits. This normally requires at least 100 medical benefits plan participants.
- Health Savings Accounts (HSA) in combination with "High Deductible" medical benefits plans. These plans are normally offered at annual open enrollment, along with more traditional plans, as an option for employees who expect minimal medical expenses for the upcoming 12-month period.
- "LifeCycle" plans that increase employee satisfaction by providing multiple plans with basic and enhanced levels of benefits.
- Modified benefits plans combined with Health Reimbursement Arrangement (HRA) accounts. These accounts can also provide cost-effective dental and vision care benefits.

Please contact us if you would like to discuss management strategies for your medical benefits plans. **Benefits Advantage** provides consulting and insurance brokerage services for all types of employee benefits programs. Emphasizing *personal service, creative ideas, and positive results*; Benefits Advantage Inc. has 30 years of industry experience in working with clients.

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In this and/or future issues you will find short, yet meaningful articles on:

- Human Resources
- Risk Management
- Executive Compensation
- Executive Benefits
- Employee Benefits
- Private Wealth Planning
- Strategic Performance Management



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PERFORMANCE MANAGEMENT

The Profit Equation

The traditional formula for measuring profit is: **Revenue – Expenses = Profit**. However new thinking is directed at not only reporting profits but impacting and improving profits. This requires that you look at the formula somewhat differently, i.e., looking deeper into the activities that generate revenue and drive expense. The new perspective looks like this: **People x Process = Profit**. *The Profit Equation*, as it is called, identifies that revenue and expenses are a function of people's behavior as they operate within a company's processes. It further suggests that the key to success, or maximized results, lies in consistently leveraging both your people and process.

For example, using this philosophy the formula for revenue is translated into activities that looks like this: **# Existing Customers – Lost Customers + New Customers = Total Customers x Frequency x Average Sale \$ = Gross Revenue**.

The idea is that there are activities that are critical to the overall performance of a company – activities that can be measured and leveraged. *The Profit Equation* creates a link between leading and lagging indicators. The opportunity lies in measuring, managing and leveraging these areas of performance on a real-time basis. You can make small incremental changes in key areas or activities that will have profound effects on the bottom line. By applying *The Profit Equation* to your business and developing a performance measurement system for the key activities you will have the information needed to manage more effectively, empower staff and grow profits.

Stone & Associates stands ready to assist with performance measurement systems, or any of our other Strategic Performance Management, Financial Management Consulting or Business Performance review services.

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HUMAN RESOURCES

Rising Fuel Rates Generate Mileage Rate Increase

As a result of surging gas prices, the Internal Revenue Service has implemented a rare mid-year adjustment to its allowable vehicle reimbursement rate.

The rate, which allows employees, self-employed individuals and other taxpayers a deduction for all business miles driven, has now been increased to 48.5 cents per mile. This represents an eight cent increase from the previous 40.5 cent rate that had been in effect for the first eight months of 2005.

The IRS, which usually adjusts the annual mileage rate in the fall for the following year, is breaking precedent not only with this new mid-year adjustment; but in waiting to establish the rate for next year as well, as a result of recent events. According to a statement released by IRS Commissioner Mark Everson, "With many predicting a decline in gas prices over the coming months, we will hold off on setting the 2006 rate until closer to January."

Gasoline costs have risen dramatically-in most parts of the country by over \$1.00 per gallon-over the past 12 months; driven by both an increase in global demand and the damage done by Hurricanes Katrina and Rita.

Please feel free to contact us with questions related to this, or any other related Human Resource matter. **HR Professional Consultants** provides outsourcing and project based Human Resources consulting services for companies of all types and sizes.

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