

The View from Level VII™

EMPLOYEE BENEFITS

Your 401(k) Challenge

Most of our customers recently received their 12/31/02 Participant Statements, along with some type of "Management Summary". These statements show participant account activity for 2002, including investment returns. On a national basis, many employees lost 10% or more of their total account balances during 2002, even after employee deferrals and employer contributions were added in. This is especially disappointing since many well diversified stock / bond / real estate portfolios had negative returns of "only" about 5% last year. Negative returns of 10% or more are even worse when you consider the level of positive returns required to offset one or two large negative returns.

We'd propose that you accept a challenge for your own plan. Using information from your 12/31/02 Participant Statements, determine what percentage of your participants had negative returns in excess of 10% for 2002. If this percentage is 20% or more, you might want to work with your plan provider(s) to develop an employee education program. The goal of this program would be to make sure that employees understand the value of portfolio diversification in providing stable investment returns.

Please contact us if you have any questions regarding this 401(k) Plan challenge, or if you'd like to discuss employee education programs.

Benefits Advantage, Inc. 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
- Business Succession

HUMAN RESOURCES

Watch Your Words In Termination

Let's say you're getting ready to fire women for poor performance. Since she's six month pregnant and has already requested FMLA leave when her baby's born, you go down a mental checklist to make sure there's no hint of discrimination or retaliation.

Did her supervisor put her on notice of her performance problem? Check.

Did he follow your company's progressive discipline procedures? Check.

Did he document everything? Check.

Is her performance worse than her co-workers? Check.

Then you and the supervisor meet with the employee and tell her she's fired. She becomes defensive, argues, and blames the supervisor for her problems. This angers the supervisor, who begins arguing back. Before you can settle him down, he says, "Man that's the last time I let a pregnant woman in my department!"

Suddenly, you have a problem. The employee's pregnancy had nothing to do with the decision to fire her, but now it looks that way. Any the supervisor's comment made the employee much more likely to sue your company.

What went wrong? The supervisor broke three of the cardinal rules of firing: Don't get emotional, don't argue, and don't mention protected characteristics like pregnancy or FMLA leave.

The key to preventing a problem like this at your company is to train your supervisors on how to safely fire an employee. You may consider preparing a script to follow and meeting prior to the termination meeting in order to review the material in advance. For information concerning our training programs concerning termination of employment contact us today.

HR Professional Consultants, Inc. offers human resource services and outsourcing for businesses of various sizes.

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EXECUTIVE BENEFITS

401(k) Not Enough? 412(i)...Maximize!

After loosing favor to the attractive looking defined contribution plans in the bull-market 1990s, 412(i) plans back and are now more popular than ever. Today's uncertain economy coupled with the potential for even higher contributions and deductions in defined benefit plans provided by the Economic Growth and Tax Relief Reconciliation Act of 2001 has fueled the 412(i)'s resurgence.

A 412(i) plan is a defined benefit qualified retirement plan. These plans are funded with insurance contracts, guaranteed by an insurance company. This benefit, risking no principal and providing guaranteed, secure returns, with maximum contributions and deductions are exactly what many business owners are looking for right now.

Furthermore, due to the guaranteed contracts, contributions for older employees can be considerably higher than allowed for in traditional defined benefit plans. For example, a 55-year-old doctor, using a retirement age of 62, could make a maximum contribution into a 412(i) plan could be as much as \$332,357. Compare that with a maximum contribution of \$41,000 into a traditional profit sharing plan; or \$188,209 into a traditional defined benefit plan. With a 40% tax bracket, this doctor's income tax bill would be over \$130,000 less.

Small businesses with less than eight employees (limiting required employee contributions) are generally the best 412(i) candidates. High-income business owners, including professionals, particularly those with stable earnings.

Other added benefits to the 412(i) are that: 1) the life insurance policies in the plan are acquired on a pre-tax basis and provide income-tax-free death benefits to the beneficiaries on death benefit above cash value; and 2) the plan can be self completing disability occurs by adding waiver of premium. How many qualified plans have that option?

Weir Financial Resources, LLC is a financial advisory firm offering information, ideas and solutions in Executive Benefits, Business Succession and Private Wealth Planning.

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