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The Bonfire of the Values

by Pat Byrnes

We live in a noisy world. Whether it's from the radio, the telephone, the person in the cubicle next to us, or the constant barrage of e-mails, we are deafened by data and surrounded by sound. What consistently rises above the noise is action, in whatever form it takes. It is the actions of employees, the way they behave and the way they do business, that defines a business' culture. The principles that guide behaviors are the Values for which an organization stands.

You may not have noticed, but there were bonfires in Houston and Chicago in recent years. What fueled these fires were the Values, Visions and Cultures of two monolithic organizations: Enron and Arthur Andersen. In Enron's case, the culture upon which this organization was built appears to have been razed by a generation of leaders who deemed appearance (and the personal wealth that accompanied it) as paramount. At Andersen, a failure of leadership at some level seems to have led to three egregious examples of the organization's failure to conduct credible audits. The fallout is now destroying the firm's once-pristine reputation.

How could the culture created by Arthur Andersen, renowned for recruiting the best and brightest in the industry, devolve to its current state? As in the case of Enron, ultimate accountability must lie in leadership. At some point in recent years, the leaders of these organizations, through their actions or inaction, ignited fires that led to the demise of Enron and the crippling of Andersen. Somewhere along the road, leadership in both companies appears to have decided to begin shifting priorities and began encouraging new types of behavior. These behaviors were rewarded handsomely. And what gets rewarded, get repeated.

Eventually these behaviors began to redefine the cultures of Enron and Andersen. The companies, which both shared three values, "Integrity," "Respect," and "Excellence," tolerated actions that were, at best, incongruent with those values. What resulted was a state of "values drift," where the rules for acceptable behavior became too vague to recognize. The renegades within each organization began making their own rules, and the results are now manifest.

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Why Do You Need a Benefits Consulting Firm?

by Gerri Wheeler, Consulting Administrator

Prior to retaining ACI, many of our clients have experienced great difficulty with routine plan administration and compliance. Here are some of the stories we've heard from clients:

- A retirement plan sponsor was sold an insurance product using a qualified retirement plan as a vehicle for contributions. Time passed; the plan's legal documents were never updated to comply with the changing laws and the annual Form 5500s were not filed for several years. The business eventually retained ACI to guide them through a very complex process to retain the plan's tax-favored status.
- A plan sponsor transferred their plan to a nationally known investment house. Soon thereafter, they started receiving paperwork de-

scribing how to complete complex nondiscrimination testing required by the IRS annually. This paperwork described the definitions of legal terms and told the sponsor where to get the information to complete the nondiscrimination tests themselves.

- Another business who also had their assets with a nationally known investment house received non-signature ready, partially completed Form 5500s and were expected to understand terms like "Prohibited Transaction" in order to complete the forms on their own.
- A plan sponsor had to make very expensive contributions to pass ADP/ACP testing. Upon review, if the investment house had used an alternative testing method, the

tests would have passed and those very expensive contributions wouldn't have been necessary.

- A sponsor of a defined benefit plan was surprised when his new investment provider mailed him a Schedule B. The Schedule, which is an attachment to the annual 5500 form, is required for all defined benefit plans and must be prepared and signed by an actuary. The accompanying cover letter asked the client to complete, sign and attach the Schedule B to the Form 5500.

ACI understands complex governmental requirements and the administrative aspects of those requirements. We often work in tandem with investment houses that our clients select to ensure compliance with those requirements. It's our job to make the lives of plan sponsors as simple as possible.

Bonfire

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The deeper issue at Andersen was that the organization didn't adequately challenge themselves or their clients. Andersen's leaders tolerated renegade behavior, rather than confronting and resolving it. Likewise, when faced with obvious accounting irregularities, Anderson chose to look the other way, rather than challenge Enron's practices. It's ironic that Andersen's best protection against litigation had become counter-intuitive to their culture. The unstated value of "consensus at all costs" replaced the stated values of "Integrity" and "Excellence."

If anything positive can be gleaned from the Enron-Andersen debacle,

it's that it once again highlights the enormous impact that values and culture have on a business' longevity. Enron's culture was based on the principle of style over substance—of maintaining a façade of success at all costs. Andersen, once viewed as the conscience of the accounting industry, saw its culture regress into one that tolerated a level of renegade behavior that ranged from incompetence to dishonesty. It's no surprise then that Enron's fate is sealed and Andersen's future is clouded.

The foundations established by thousands of honest, hardworking employees at both Enron and Andersen have been compromised by leaders who

lacked the vision and values of their predecessors. This serves as an important reminder to owners and executives of businesses of all sizes: Establish your values, communicate them effectively to your staff, then hold yourself and your employees accountable.

By creating an environment where you and your employees live your values, you'll avoid your own bonfire.

Retaining People In Down Times

by Jeff Wallace & Lace Opperman

“Take away my factories, my plants; take away my railroads, my transportation; take away my money; strip me of all these, but leave me my people and in two or three years I will have them all again.”

- Andrew Carnegie

Mr. Carnegie’s message was simple: No matter how bad things got, if he had his people, he’d prevail. In an era where “The Machine” and the assembly line were viewed as the only capital that mattered, Carnegie recognized the true value of the human mind and spirit. He was, in more respects than one, a man ahead of his time.

Today, most employers understand Carnegie’s emphasis on people. Whether a business manufactures plastics or provides IT consulting services, people drive the business—machines are secondary. However, during the last 18 months, many employers have faced increasingly challenging business conditions. Layoffs are prevalent as markets shrink. Expenses are being cut wherever possible. The unique perks that employees recently enjoyed are fast becoming distant memories.

Employers are now faced with questions that are radically different from the ones they faced two years ago: Where else can we cut costs? Who do we lay off? For all the anxiety this creates among executives, employees have it worse—many question whether they’re the next one to go, or whether the business itself will survive the downturn. Employers need to be sensitive to these fears in order to avoid the mental paralysis that can result from it.

A vital question many employers are not addressing is, *How do we retain our best people during downturns?* Companies need to review the effectiveness of their retention strategy before key players in the talent pool begin moving

on. However, many organizations fail to understand the two most basic elements of retention strategy: Values and Trust.

Establish Values

Values will serve as a foundation for determining who to hire, keep, and reward. An effective set of corporate values will clearly define the behaviors that are acceptable in your organization. They will guide decisions, both minor and major. They will serve as the foundation for your culture.

In a retention role, values help you identify the *real* key employees. The highly productive employee who wreaks havoc among his peers may be necessary in the short term, but unless “Chaos” or “Disharmony” are among your values, he’s probably not critical to the long-term success of the organization. Clearly, he’s not the person around whom you construct a retention strategy.

Instead, you need to identify the leaders and emerging leaders who embrace the organization’s values and help evolve the culture. Every company has such people, and even if they aren’t revenue producers, they can have a significantly positive impact on a business. These are the people around whom you build your retention strategy.

Establish Trust

What happens when profits decline and unemployment rises? Because we live in a world where a single circumstance can quickly change everything around us, employers need to establish a process for sharing important information with their employees. Employers must establish a level of trust with their employees in order to maintain morale and gain commit-

ment. Honesty and trust in the company is essential to surviving (and maybe thriving) in tough economic times.

In *Truth, Trust, and the Bottom Line*, authors Diane Tracy and William J. Morin suggest that managers use a coaching approach in their management style in order to develop and maintain trust among their employees. This approach can be extremely valuable in companies that may face corporate downsizing. The coaching approach involves communicating with employees honestly and directly, and focusing on their performance and their role in the organization.

You might be surprised to see how the coaching approach will help maintain confidence and alleviate fears among staff members, particularly in uncertain times. This style can boost morale and improve the company’s bottom line in a variety of ways, including:

- Encouraging employees to be proactive and focus on enhancing their job, rather than questioning their position in the company and how to protect themselves.
- Increasing productivity as more time and energy is focused on work, rather than worry.
- Enhancing customer relationships by improving the relationship between staff members and management. The theory goes that an employee with a high satisfaction level will have better relationships with customers than an employee with low morale.

Building a Retention Strategy

Once you’ve identified the *real* key people and you’ve established a high level of trust, you can begin constructing an employee retention strategy applicable to the entire organization.

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Taking Advantage of GUST: Plan Design Suggestions

by Tobi Cogswell, Consulting Administrator

The year 2002 promises to be both interesting and busy in the qualified plan world. We are wrapping up a government requirement to amend and restate *all* qualified plans for GUST, and we are embarking on another major project to update and amend plans for EGTRRA by virtue of model amendments.

As you are probably aware, the GUST restatement isn't optional: If you sponsor a qualified retirement plan, you have to overhaul the plan document this year. With the EGTRRA model amendments, you can hold off until as late as 2005 to adopt some of the provisions, but the majority of changes represent some of the most favorable pension legislation we have seen since 1987. In many cases, you would be doing yourself and your plan participants a disservice if you did not adopt some of the provisions.

While we're at it, now may be the time to consider what's working well with your plan, and what needs improvement. As long as we're amending your plan document, you might want to incorporate some new features. The following are some design ideas to consider:

- 1) Automatic Elections. If you have a 401(k) plan that fails ADP/ACP tests due to poor participation, you may want to add an automatic election feature. Once an employee meets the age and service requirements of your plan, upon the next entry date he would automatically defer 3% into the plan unless he specifically waived out. This must be carefully communicated to employees, but once a participant realizes that 3% barely dents their paycheck, they'll probably leave the automatic election in place.
- 2) Consider liberalizing your plan's eligibility requirements. In a non-top-heavy 401(k) plan with no employer contribution, there is no reason to have

a lengthy wait to enter the plan. You can tie the entry date into the plan with other benefits such as insurance eligibility, and get everything done at once for maximum efficiency.

- 3) If your plan has more frequent entry dates than annually, and compensation is not considered for the whole year in the initial year of participation, consider taking this provision out of your document. By doing this, you'll avoid having to prepare your own census data (your payroll service can provide the data instead).
- 4) If you limit compensation in the first year of participation, consider amending the definition of compensation to "pro-rated W-2", "pro-rated 3401(a)", etc. This will give ACI the ability to pro-rate compensation in a logical way instead of using actual earnings for a short, specific period, and it will allow us to complete testing and calculate allocations more quickly.
- 5) If you have a profit sharing plan with annuity provisions, consider amending your plan to take out the annuities. Recent changes to 411(d)(6) have allowed certain types of plans to make this change.
- 6) Consider changing your matching contribution from an end-of-year allocation requiring employment on the last day and 1,000 hours worked, to a match "as you go." Yes, it will give a match to terminees, but they will get it only to the extent they are vested. This also gives you the ability to have your payroll service calculate the match on a pay-period basis, and gives you the opportunity to contribute the match on a pay-period basis. You won't have to do any matching contribution calculations at year-end, and it will give you

the opportunity to provide an excellent benefit to your employees.

We have lots of ideas and are pleased to take the opportunity to consult with you on how to change your plan to provide maximum benefits, maximum efficiency and maximum cost-effectiveness. Please feel free to discuss any questions or concerns you might have with your ACI administrator – we spend 100% of our day doing this so that you don't have to.

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This strategy needs to take into account the usual financial components of the employment arrangement (base salary, short-term incentives and long-term incentives), as well as non-financial components like Work/Life programs and health and welfare benefits. The goal is to create a rewards program that supports your organization's values and culture, while providing the appropriate mix of financial and non-financial incentives—and remaining within budget.

You can begin this process by formally or informally surveying your key people to identify which reward components are most valuable to them. Depending upon your unique demographics, you may find some unexpected trends. Once you are able to rank the various components, you can begin forming a formal compensation and benefits philosophy statement for your business, and implementing programs aimed at retaining your best people.

ACI's consultants can assist you with any aspect of developing an employee retention strategy.

For more information about ACI's compensation and benefits strategy services, contact Jeff Wallace.