



# The Fragasso Group, Inc.

*The Retirement Planning and Wealth Preservation Specialists*

*A Registered Investment Advisor*

*...For the Serious Investor*

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## YOUR COMPANY RETIREMENT PLAN:

### Is It Standing Firmly On Three Legs?

If I had to point to one positive result of the past three-year market downturn, it would be its impact on individual investors to return to the basic and proven textbook principles of investing.

#### INDIVIDUAL PORTFOLIOS

We all know that the bull market of the late '90s made it nearly impossible to avoid certain misconceptions. While investors everywhere watched their accounts soar, it no longer seemed necessary to seek financial guidance on planning or portfolio management. Expectations of 30% returns seemed reasonable, if not mediocre, and the idea of "rebalancing" – taking from over-performing portions of our portfolios to beef up the sectors that had lost money – seemed utterly preposterous.

All along, however, our insistence with our clients to avoid these misconceptions and to adhere to the time-tested principles was unwavering. This message was and still is communicated frequently – in the form of phone calls, newsletter articles, quarterly and annual plan reviews, and in detail during our financial education courses.

#### RETIREMENT PLANS

Placing emphasis on these principles and methods of discipline is equally as important in your company retirement plan and 401(k) accounts.

Whether you are one of many participants in your company retirement plan, a corporate trustee, or the owner of the company sponsoring a retirement plan,

there are three components that are critical to the plan's success.

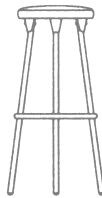
#### THE 3-LEGGED STOOL

Your company retirement plan has three "legs" upon which it stands. Just like the chain link, this stool is only as strong as its weakest leg.

*The First Leg* is the plan document, the actual agreement that states information such as your company's eligibility requirements, vesting schedules, loan provisions and company match details. This document should be updated for EGTRRA amendments by 12/31/02 and for GUST restatement by 9/30/03. (For further information on either deadline, contact our office or visit [www.irs.gov](http://www.irs.gov).)

*The Second Leg* is comprised of investments available to you within the plan. They should span various sectors and mutual fund families to allow for proper diversification and to limit unnecessary exposure to risk. Performance should be measured against appropriate indices and be relatively in line with those indices. Access to investment information should be available via Internet 24/7 or live-person toll free phone support.

*The Third Leg* is service, and is commonly lacking in company retirement plans. An appropriate level of service should promote participation and contribution levels and satisfy ERISA Section 404(c) requirements by providing regular employee financial education, quarterly contact between participants and registered financial consultants to rebalance portfolios and provide personalized financial plans.



### Corporations Also Benefit From Information

The need for corporations to educate their workforce has never been greater. Our employee financial education courses teach that it is not what an employee *makes* in salary but what the employee *does* with what he or she makes that will determine the difference between financial success and failure.

In addition to satisfying ERISA 404(c) requirements, companies that provide this free and critical benefit to employees often enjoy ancillary results including increased participation and contribution levels in company retirement plan, enhanced employee understanding of fringe benefits package, greater retention, lessened fear over financial concerns and increased morale.

Some of the local companies and organizations that have recently offered our financial education courses to their employees include:

- Highmark
- Duquesne University
- IKM Architects
- Among Friends

For plan participants, a strong and well-maintained retirement plan can mean the difference between achieving retirement security or not. For plan sponsors, if correctly handled, the plan itself can help to increase employee retention and morale, company loyalty, and a competitive edge to attract potential job candidates.

## THE BUSH RETIREMENT PLAN PROPOSAL:

# What It May End Up Meaning For Employers

**W**hy write an article about something that hasn't happened yet, and that may not happen at all? Because, despite the fact that Bush's proposal to eliminate all current retirement plans and replace them with new options hasn't yet passed Congress, questions are arising NOW about its potential impact on employers.

It seems as though we've just amended company retirement plans for the changes brought about when Congress enacted EGTRRA (Economic Growth and Tax Relief Reconciliation Act) in June of 2001. We've just memorized its new provisions including, the increased annual limit on 401(k) and 403(b) deferrals, increased annual compensation limit for contribution/benefit purposes, increased dollar limit for individual contributions/benefits purposes, simplified and modified top-heavy rules, allowance of rollovers between different types of plans, and "catch-up" contributions for participants age 50 and older. While the rules have been beneficial to many employers, gaining a thorough understanding of them can be quite daunting.

"The overwhelming complexity of current rules imposes substantial burdens on employers and workers," states Pam Olsen, Treasury Assistant Secretary for Tax Policy. "Because employer sponsorship of a retirement plan is voluntary, this complexity discourages many employers from offering any plan at all." So how would the proposed plan help?

On January 31st, the Treasury Department announced that the proposed ERSA (Employer Retirement Savings Account) would consolidate the currently multiple tax-preferred, employer based retirement savings accounts which share similar goals, but different rules regarding eligibility, contribution limits, tax treatment, and withdrawal restrictions. ERSAs would replace 401(k), thrift, 403(b), and governmental 457 plans as well as

SARSEPs and SIMPLE IRAs into a streamlined account.

Though ERSAs would follow the existing rules for 401(k) plans, supporters say that the rules would be greatly simplified. For example, the definition of compensation and the minimum coverage requirement will be simplified and the top-heavy rules would be repealed. Nondiscrimination requirements for ERSA contributions would be satisfied by a single test and companies could choose to adopt a new design-based safe harbor to avoid this test altogether. The proposal would simplify qualification requirements while maintaining the intent of providing broad-based coverage of employees. Supporters of the plan also maintain that by reducing the unnecessary complexity, ERSAs would also reduce employer compliance costs. According to Olsen, "I'm confident that simpler rules will encourage employers," and that "creating a qualified plan(s) will be much easier."

So how do ERSAs compare to current retirement plans in terms of deferral amounts? Employees will be able to

defer \$12,000 (increasing to \$15,000 in 2006) plus, once the employee reaches age 50, a catch-up contribution of \$2,000 (increasing to \$5,000 in 2006). This is the same amount that an employee may defer under a regular 401(k), 403(b), 457, or SARSEP plan, but it is greater than the amount permitted under a SIMPLE 401(k) or SIMPLE IRA.

While many other questions exist about ERSAs, one of the most common seems to be, "Will employers have to terminate their existing plans and transfer the assets to ERSAs?" The answer is no. If Congress passes the proposal, then beginning in 2004, all 401(k) plans will become ERSAs. SIMPLEs, SARSEPs, 403(b) plans and governmental 457 plans may continue in existence indefinitely, but may not accept any future contributions in 2004. And, any employer will be able to sponsor an ERSA.

Therefore, at a time when many employers are currently undergoing evaluations of service, performance and compliance of their company retirement plans, the proposal should not hamper those important efforts.

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## The Fragasso Group Introduces New Financial Planning Course Offerings

**O**ver the past three decades the Fragasso Group has worked to provide educational financial planning workshop to local universities, corporations, and organizations. The classes provide attendees with valuable information about retirement planning, estate planning, debt, education funding, stocks, bonds, asset allocation, inflation, and many other pertinent topics. As part of class, each attendee has the option to create his or her own financial plan.

Recently, we have noticed an increasing demand for information specific to particular sectors of the population. In response, The Fragasso Group has designed new seminars that will address the specific concerns of these sectors as well as give them the general financial planning basics necessary to help alleviate those concerns.

In addition to the meaningful information you will receive, attorneys, CPAs, human resource and insurance professionals are eligible to receive up to 9 continuing education credits.

To Register, please call The University of Pittsburgh at (412) 648-2560.

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## RETIREMENT PLAN SPONSORS:

# ERISA Keeps You On Track, But Evaluation Is Your Job

We all have bad habits. Procrastination is an example of one that plagues many of us. Most of the time, it's harmless enough. After all, who can't say that they've put a high-priority item on hold while a "crisis" issue arose and quickly took its place.

For retirement plan sponsors, the task of evaluating of the plan is one example of an item that can end up getting bumped for seemingly higher priority issues, despite good intentions.

The problem is, this postponement *isn't* always harmless. Your employees need you, and as their "fiduciary," you have a big hand in their financial success or failure in retirement. And the recent years' poor stock market performance is casting more light on that fact, as employees seek someone to blame.

"Because of the losses participants have suffered over the last three years, the likelihood of litigation has increased. Prudence hinges on process, not performance," noted Richard M. Todd, a *CPA Journal* contributor in the April 2003 issue. "The process of ongoing evaluation is a fiduciary requirement," Todd continues in his article.

And, as if that's not enough pressure, ERISA chimes in, too.

ERISA (The Employee Retirement Income Security Act) does its job to keep fiduciaries and retirement plan sponsors on their toes by creating certain minimum standards to assure that employee benefit plans are established and maintained in a fair and financially sound manner.

The Department of Labor has principal jurisdiction over Title I of the Act, which requires persons and entities who manage and control plan funds to:

- manage plans for the exclusive benefit of participants and beneficiaries;
- carry out their duties in a prudent manner and refrain from conflict-of-interest transactions expressly prohibited by law;
- comply with limitations on certain plans' investments in employer securities and properties;
- fund benefits in accordance with the law and plan rules;
- report and disclose information on the operations and financial condition of plans to the government and participants;
- provide documents required in the conduct of investigations to assure compliance with the law.\*

And after all, evaluation gives you the opportunity to change what could be wrong. The past is the past, but if you think your plan has suffered unduly from what may be limited investment choices, high fees or insufficient service and employee financial education, now is the time to determine that and change it.

\*Source: *HR Next, The ERISA Facts Guide*

## Are You Protecting Your Most Valuable Asset?

Y ou ever ask yourself what is your greatest asset? Is it your home, your car, your retirement plan, No, it is your ability to earn an income. If you were to become disabled, what would happen to all of the assets you worked so hard to accumulate and what would happen to all your future goals? If your earning power is your greatest asset then why do many people fail to adequately insure their greatest asset? There are some alarming statistics that are associated with disability, the most alarming is that more than 40% of people currently age 35 and under will be disabled for 90 days or longer by the time they reach age 65. Your chances statistically are greater when it comes to being disabled than they are of you dying. Most people readily focus on the need for life insurance. You most definitely need to address life insurance, but, given the greater chance of disability than of death, you must address the possibility of disability as well. Just like life insurance, disability insurance is easily available. And, these policies can be very flexible to cover your unique needs.

Here are some provisions that define disability contracts.

- **Benefit Amount** — You can choose to replace a percentage of your current monthly income
- **Elimination Period** — All disability income insurance policies have an "elimination period," similar to the deductible for medical and car insurance. This is the length of time you must be disabled before you would become eligible for benefits, typically 30, 90 or 180 days.
- **Benefit Period** — Once you qualify for disability, the policy will pay you monthly benefits for a certain period of time. Based on your disability and your policy, monthly benefits may be payable for only one or two years, or until you reach age 65 or older.
- **Definition of Disability** — The policy has a "definition of disability" which defines disability relative to your ability to work and/or your ability to work in your current occupation. The definition of disability is one of the most critical features of a disability income policy, and is something you should review carefully before purchasing a policy.

Disability contracts are available through many employment fringe benefit programs, and also via individual contracts. We sometimes mistakenly think that what we are assigned through our employer is the proper amount of coverage. We urge each of you to take a disability needs test to determine your correct levels of coverage.

## A CHECKUP FOR PHYSICIANS' RETIREMENT PLANS

### "What in the world is going on with this market?"

The question is being asked daily at every lunch table, on every golf course, on every front-page newspaper. And though the answers to the question vary extensively, the truth is that no one is entirely sure.

Now is not the time to focus on things we cannot control. It critical right now to focus on the fundamentals and on those things we *can* control.

**What we know:** We know that for physicians, qualified retirement plans provide one of the few good tax shelters that remain under today's tax laws.

**What we don't know:** We do not know an exact date and time of a huge market rally.

**What we can control:** We can control our utilization of new legislation affecting our retirement plans. We can control the extent to which those plans are examined and updated to reflect new legislation, and suitability to the practice.

**What we can't control:** The market.

While our sights remain fixed on the frustratingly downward balances appearing on quarterly statements, and focus on losses, many benefits have been introduced recently through legislation, which don't seem to be commanding the same attention. For example: it is known that for physicians, whether opening a practice, running an established solo practice or, a member of a multi-physician group practice, a qualified retirement plan for the practice remains one of the single greatest sources of tax benefits. Changes and improvements in these benefits have arrived.

The changes brought about are a result of the Economic Growth and Tax Relief and Reconciliation Act (EGTRRA). In addition to the increases to individual retirement plan contribution limits, the plan contains provisions involving exciting opportunities to physicians who sponsor retirement plans for their employees. Many see

these provisions as having a favorable and significant impact on retirement plan designs and on plan participants.

Part of the new legislation makes 401(k) plans more accessible to small business and professional practices. Many physicians' practices have shied away from offering 401(k) plans because the difficult nondiscrimination requirements.

What this means is, the average deferral percentage of highly compensated employees (those who earn more than \$85,000), cannot be more than 2% greater than the average deferral percentage of the rest of the staff who are non-highly compensated. Congress's reasoning for this has been to deter disproportionately high

benefits for high-income earners, and most physicians are considered to be part of this economic group.

Methods are being used by some physician plans, whereby providing a specified non-elective contribution or a specified matching contribution will allow the retirement plan to forego the complex testing normally required of 401(k) plans.

These and other tax and retirement planning strategies combined with the legislation described, and the rising contribution limits significantly expand the offerings for physicians and their employees.

Performing a checkup on the health of this very important part of your own medical practice is critical for its success.

## Hats Off To Our Clients!



How often in the workplace have we been in conversations with fellow employees regarding the increasing sense of uncertainty regarding career, retirement security, and in truth, our families' day-to-day safety?

### How to resist the urge for pessimism?

Highmark and employee George Kruth both demonstrate that taking positive action to continue pursuing goals during an uncertain time – be they corporate or personal – can be an excellent antidote.

As an employer, Highmark routinely promotes educational programs, offering staff an opportunity for meaningful self-enrichment and learning.

Squarely in the midst of our nation's Wall Street downturns, Highmark manager Rich Little, Director, Corporate Employee Benefits and Highmark's Retirement Plan Administrator, Mary Rosenberg, decided, pro-actively, to arrange for an after work-day class on the basics of retirement and financial planning.

Believing that "a company-wide effort should be made to address the need for information among those employees [and their spouses] nearing retirement," Rich and Mary arranged for food and refreshment and engaged The Fragasso Group to present during an evening in October.

60 Highmark employees and spouses attended the 3-hour, evening session!

One employee, George Kruth, from Highmark's Veritus Medicare Group, appreciated the historical perspective our seminar provides and said further he appreciated its easy-to-understand style.

We were also pleased to hear him say the following:

"I have become generally distrustful of the financial management field on the whole, however The Fragasso Group has an integrity associated with it, and getting to meet Bob [as the class instructor] just added to an already good perception of the group."

We offer thanks to Rich, Mary and George for their sponsorship and praise of our employee seminar.

The real compliments, however, go to Highmark for their attention to the needs of their staff and to George Kruth, for continuing to pursue his understanding of financial management and retirement planning!