

FOCUS ON ADMIN

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The Pangburn Company INCORPORATED

Mission Statement

The Pangburn Company, Inc. is a *fee-for-service* TPA (Third Party Administrator) dealing exclusively with nonqualified executive fringe benefit plans. We administer plans for a diverse clientele ranging from small closely-held family businesses to international Fortune 500 companies. Our clients can be found in all fifty states and represent a broad cross section of the global economy. Our primary objective is to provide you and your clients with accurate and useful information, on a timely basis, at a reasonable cost. As a TPA we have formed a number of strategic alliances with major life insurance carriers, mutual fund wholesalers, accounting firms, banks, producer groups, brokerage houses, and executive benefit specialists. We have combined experience with technology to provide you with state-of-the-art plan administration at a reasonable cost.

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The information in this publication is for general use and should not be applied to individual situations unless coordinated with professional financial advice. The Pangburn Company, Inc.

SPLIT DOLLAR PLAN ADMINISTRATION

Split Dollar has long been one of the most popular nonqualified executive fringe benefits. It offers a cost effective way to provide personal life insurance benefits paid, in whole or in part, with employer dollars. Over the years hundreds of hybrid versions have emerged, but at their core, they involve some form of split interest between the employer and employee in the policy premium, cash value, and death benefit. Despite the almost limitless combinations, most split dollar plans still follow the two traditional forms of collateral assignment and endorsement. Reverse split dollar, private split dollar, and the recently discredited charitable split dollar have also been popular variations on a theme. Yet, there is an inherent trap in all forms of split dollar . . . a trap that has yet to be sprung in a majority of plans . . . a trap that may snare not only the parties to the agreement, but also the unwitting agent that initiated the plan. The trap, of course, is that eventually the vast majority of split dollar plans get unsplit or terminated . . . an event that can result in undesirable consequences. The heart of the problem is whether to tax either or both parties on policy cash values not previously taxed and made available as a result of the split dollar termination. Previously formulated strategies include buyouts, rollouts, crawlouts, switch dollar,

and the always popular “don’t ask, don’t tell”! Regardless of the defense chosen, there is little help available from the IRS and the courts. In fact, it is safe to assume that split dollar will continue to be a primary target on the government’s radar screen.

One weapon available to both agent and policyholder is comprehensive record keeping. It is impossible to defend your position if you don’t have a detailed “paper trail”. Anyone can calculate economic benefit (reportable income), but what about cost basis? Do you have detailed records on every split dollar policy you have sold? The vast majority of carriers do not track cost basis especially for contributory plans, and if you haven’t done it, there is a good chance your client hasn’t either. As independent Third Party Administrators we not only track cost basis for both parties, but we also prepare GAAP reports for the employer’s interest in the policies on a fiscal year basis with daily accuracy. Although it is not a guaranty of litigation success, detailed and accurate records prepared by a third party should go a long way in documenting actual transactions not just hypothetical intentions.

For \$25.00 per policy (minimum fee \$100.00) let us add another arrow to your quiver.

THE YEAR IN REVIEW

Thanks to each of you, 1999 was another record year for The Pangburn Company. Our client base grew by almost 40% and growth prospects remain strong for all market sectors. Despite the increase in costs associated with staffing and technology we were able to maintain our ultra competitive fee structure for a 16th straight year! During the year we formalized a number of new vendor relationships, primarily within the life insurance industry. Following is a list of some of the carriers and companies that we administer plans for. If your primary

company/carrier is not on this list please consider referring us to the appropriate party: (American Buying Retirement Services, AmerUs Life, Guardian Life, Highland Capital, John Hancock, Manulife Financial, Mass Mutual, MetLife, Mutual of New York, Nationwide, New England Financial, Pacific Life, Penn Mutual, Phoenix-Home Life, Security Life of Denver, Southland Life, Sun Life of Canada, and The R. E. Lee Group.) Thanks again for contributing to our continued success. We look forward to providing you and your clients with an ever-expanding level of service at an affordable cost.

PLANNING BRIEFS

Year 2000 Dollar Limits:

- 415 Max Defined Benefit - \$135,000
- 415 Max Defined Contrib. - \$30,000
- Max Comp for Funding - \$170,000
- HCE - \$85,000
- 401(k) Max Deferral - \$10,500
- Soc Sec Wage Base - \$76,200
- Soc Sec Max Earnings between 65 and 69 without losing benefits - \$15,500
- 457 Deferral Limit - \$8,000

SEC Staff Accounting Bulletin 99:

Issued to clarify principles of materiality in the preparation of audited financial statements. Highlights include:

- (1) Auditors may not rely solely on quantitative criteria.
- (2) Materiality can be determined only if an item is evaluated both individually and collectively
- (3) An intentional misstatement may be illegal even if the item it concerns is immaterial.

113 TC_No. 21 (1999):

In Winn-Dixie Stores, Inc. v. Comr., the Tax Court denied a deduction for accrued interest on pre-1996 COLI contracts. Leveraged COLI (a.k.a. "janitor insurance") has once again proven to be a bad idea!

Goodbye Charitable Split Dollar:

The Tax Relief Extension Act of 1999, signed into law on December 17, 1999, contained provisions to eliminate charitable split dollar. Hopefully no one was surprised since the IRS gave us advanced warning in Notice 99-36 last June.

TAM 200002047:

IRS determines that a split dollar plan used as part of a "group term carve out" would still be subject to Section 79 imputed income rules. This is a significant finding!

WORTHY WEB SITES

PGP Security Software
www.pgp.com

Revival Undelete Software
www.revival2000.com

U. S. Treasury
www.ustreas.gov

E-Mail Addresses
www.iaf.net

TECHNOLOGY TIPS

Privacy & Encryption

Guess what? Those sensitive files you just deleted from your Recycle Bin aren't really deleted. Your computer just allows other files to eventually overwrite them. Oh, and your boss knows you've been forwarding off-color e-mails to your fifty closest friends on company time. Even if you are the boss, you should know that almost all e-mail is logged and archived creating a fairly permanent record of all communications.

The good news is that it is fairly easy to protect your data and communications. While there are many good encryption software packages, PGP (pretty good privacy) is probably the most popular. It is available at no cost for non-commercial use and very reasonably priced for corporate use.

PGP will enable you to encrypt your e-mail so that it can only be read by the intended recipient. It does this by using a Public/Private key scheme based on a password that you select. Basically, your public key is used by others to encrypt data intended for you, and your private key is used to decode that data once you have received it. You can also use your private

key to encrypt sensitive files on your computer so that only you can access them.

Another nice feature of PGP is its utility to permanently delete files. It will immediately overwrite a file (up to 26 times) so that it is really destroyed. This process is analogous to shredding and incinerating a sensitive document. To take care of files that may have been deleted the traditional way, PGP can even "scrub" all of the free space on your hard drive.

PGP also has features to secure network connections between computers, and the commercial version has a utility to create a virtual encrypted hard drive. For more information, visit their website at www.pgp.com Remember, big brother is watching!

MARCH 31ST DEADLINE

Employers sponsoring nonqualified plans have until March 31, 2000 to make retroactive adjustments for past FICA treatment for both defined benefit and account balance plans. The new FICA/FUTA regulations were adopted last year and become effective for most plans in 2000.

QUOTABLE QUOTES

"We have recently completed our first year of association with The Pangburn Company. Our report card is "A+". They have provided timely and accurate reporting for our non-qualified retirement plans. And, they have been most cooperative and professional in the process."

Peter Keenan, CFO
Centcom, Ltd.

INTERESTING RATES for 2000

Index	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Short Term AFR	5.88	6.20										
Mid Term AFR	6.21	6.56										
Long Term AFR	6.45	6.77										
Section 7520	7.40	8.00										
Federal Funds	5.43											
T-Bill (One Year)	6.09											
T-Bill (Ten Year)	6.58											
Moody's Aaa	7.75											

(Rates which fluctuate daily are shown on or about the 1st day of the month)