FOCUS ON ADMIN

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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 and your clients with state-of-the-art plan administration at a reasonable cost.

IN THIS ISSUE

ACCOUNTING FOR DEFINED BENEFIT SERPs (SFAS 158)

In September of 2006, FASB issued Statement No. 158, which significantly modified the rules for accounting and reporting liabilities for Defined Benefit Pension Plans, Nonqualified Defined Benefit SERP Plans, and other Post Retirement Defined Benefit Plans.

The new rules apply to publicly traded companies (effective for fiscal years ending on or after 12/15/2006) and private companies (effective for fiscal years ending on or after 6/15/2007), that currently report obligations and expenses under FASB 87 or FASB 106.

The focus of the new rules is on accounting for plan liabilities on the Balance Sheet. The new rules do not currently change how these benefits are accounted for on the Income Statement (P&L). FASB has stated that they will address this issue in the near future (Phase II).

Previous Accounting Standards

Previous accounting standards permitted the reporting of a liability on the Balance Sheet as an Accrued Pension Expense (subject to a minimum). This number was substantially smaller than the "Unfunded Obligation", which is measured as the Projected Benefit Obligation (PBO), less Plan Assets (for nonqualified plans, Assets = 0). The PBO is the actuarial measure of the present value of accrued projected future benefits, taking into account all future salary increases for plan benefits based upon salary. The nature of the "Unfunded Obligation", or "Funded Status", was disclosed in footnotes to the financial statements. Each year, the Balance Sheet Liability was increased by a current year's pension cost (Service Cost), an Interest Cost, and an "Amortization Component". These three components (together called Current Year's Pension Expense) would gradually bring the Balance Sheet Liability in line with the "Full Liability" (PBO) over time.

New Accounting Standards due to FASB 158

FASB 158 requires immediate recognition of the Full Liability of the Plan to appear on the Balance Sheet. For nonqualified plans this means that the full PBO will now be immediately recognized as the Balance Sheet Liability, instead of the Accrued Pension Expense. The new accounting standard requires that the Equity side of the Balance Sheet (Other Comprehensive Income) be decreased as the offsetting entry to the increase in Balance Sheet Liability. This could materially affect Companies with loan covenants that are equity sensitive. It should be noted that FASB 158 does not alter accounting rules under APB 12, and therefore will not affect these plans. The Pangburn Company administrative systems and client reports have all been modified to accommodate the accounting changes required by FASB 158.

CASH VALUE FUNDING

The use of COLI cash surrender values to informally fund nonqualified deferred compensation plans has been and continues to be a popular plan design technique. This approach is especially popular with smaller companies who prefer to create a sinking fund with which to meet future cash flow requirements. The tax deferred build up of policy cash values adds to the funding efficiency. However, problems can arise in deferral plans especially if benefits are based on a combination of both employee and employer dollars since there is no practical way to allocate the cash value of a single policy based on multiple sources of premium. The following is a brief list of some alternative plan design techniques:

- Fund one source with COLI and the lesser source with mutual funds
- Issue separate policies for EE and ER contributions
- Credit EE account with a fixed interest rate and credit ER account with cash value in excess of EE account balance
- If using VL or VUL policies, give EE deemed investment choices and credit ER contributions to subaccounts not offered to EE

Planning Briefs

2007 COLA ADJUSTMENTS:

Defined Benefit Funding Limit:	$180,000
Defined Contribution Limit:	$45,000
Pre-Tax Salary Deferral Limit:	$15,500
SIMPLE Contribution Limit:	$10,500
HCE unchanged at:	$100,000
416(i) Top-Heavy if over:	$145,000
Max Comp for Qualified Plan:	$225,000
Social Security Wage Base:	$97,500
IRA Max Contribution:	$4,000

CEO PAY:

An analysis of the 1,000 largest companies in the US by Steven Hall & Partners reveals 2005 median comp at the 27 largest companies was $16.8 million - for all companies studied median pay was $5.0 million.

DB PLANS OUTPERFORM 401(k)s:

According to a study by the Center for Retirement Research at Boston College, investment fees and 401(k) participants not diversifying and rebalancing their portfolios appear to be the reason why defined benefit plans yielded a better rate of return than 401(k) plans. Over the period of 1988 to 2004, traditional pension plans outperformed 401(k) plans by 1% (10.7% versus 9.7%).

RETAIL INDUSTRY SURVEY:

Mercer's 2006 Retail Industry Benefits Survey notes that 41% of organizations provide retirement benefits solely through DC plans rather than DB plans compared with just 19% of the S&P 500 companies. The study also found that nonqualified DB plans are offered by fewer than 20% compared with 50% in general industry.

2007 SALARY INCREASES:

A Hewitt survey of 1,028 large organizations indicates that for 2007 executives will receive average base salary increases of 3.8% compared with 3.6% for salaried non-exempt.

Technology Tips

MS EXCEL TIPS

Navigating Through Spreadsheets:
By holding down Ctrl and using the arrow keys, you can instantly navigate to any endpoint in a spreadsheet. For example, if you have a blank spreadsheet and hold down Ctrl and press ↓, you will end up at the very bottom of the sheet. If you were in the middle of a table of data, you would end up at the bottom of the table (the endpoint of data).

Selecting Large Amounts of Data:
Combining Ctrl, Shift, and an arrow key will allow you to select large amounts of data without using the mouse. Start at the top of a list or the top left hand corner of a table. Hold down Ctrl and Shift and press ↓. This will select all the data in the column. With a table, press → and ↓ to select the whole table. You can also use "Ctrl a" to select all the data in a list or table.

Sorting and Filtering Data:
It can be difficult to find specific information in large tables. By using "AutoFilter", you can filter out the data you are looking for and organize it to your specifications. Select the entire table, including the headings, and click on the "Data" menu, "Filter", "AutoFilter". Each heading will then have a drop down box. which will allow you to custom filter and sort to easily manage your data.

Worthy Web Sites

Succeed At Succession
www.managementhelp.org

Human Resources Know How
www.hrconsult.com

Know the Law
www.lawprofessorblogs.com

2006 Legislative Review

409A:
The Treasury has extended the time to be in full compliance until 1/1/2008. Until then, plans must continue to operate in good faith compliance. Transition relief with regard to modifying the election of time and form of payment has been extended to 12/31/2007.

COLI Best Practices:
For COLI policies issued on or after 8/17/2006, Death Proceeds from COLI policies are excluded from Federal Income Tax if:

- Coverage is limited to directors and "highly-compensated employees".
- Employers obtain the informed consent of any employee before enrolling him or her in a COLI plan.
- Employers report information about COLI to the Internal Revenue Service.

SEC Disclosure Requirements:
On 7/26/06, the SEC adopted amendments to the rules governing executive compensation disclosure for fiscal years ending on or after 12/15/2006. Final Rules were promulgated as of 8/29/2006. The Final rules require the reporting of information on nonqualified plans for certain specified executives on a Fiscal Year basis.

EITF 06-4 (Accounting for Post Retirement Split Dollar Arrangements):
Employers with endorsement (non-equity) split dollar arrangements that provide a post-retirement life insurance benefit are now required to record an obligation under FASB 106 or APB 12 for fiscal years beginning after 12/31/2007.

EITF 06-5 (Amounts Realized upon Surrender):
Employers are allowed to include amounts recoverable from surrender of COLI contracts in the total asset value on the balance sheet. The asset value may include items such as DAC and Mortality Reserves, in addition to Cash Surrender Value.

INTERESTING RATES

2006												
Index	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Short-Term AFR	4.38	4.39	4.58	4.77	4.85	4.99	5.05	5.26	5.13	5.00	4.89	4.97
Mid-Term AFR	4.48	4.40	4.51	4.72	4.84	5.06	5.05	5.21	5.01	4.82	4.69	4.73
Long-Term AFR	4.73	4.61	4.68	4.79	5.00	5.32	5.29	5.36	5.21	5.02	4.90	4.90
Section 7520	4.09	4.47	4.52	4.87	4.84	5.02	5.25	5.27	5.25	5.33	5.23	5.27
Federal Funds	4.38	4.60	4.74	4.86	4.97	5.05	5.26	5.11	4.99	4.90	4.95	4.87
T-Bill (One Year)	4.37	4.57	4.59	4.88	5.14	5.11	5.15	4.99	4.73	4.62	4.57	4.43
T-Bill (Ten Year)	N/A	4.67	4.56	4.90	5.23	5.20	5.20	5.07	4.87	4.76	4.68	4.54
Moody's Aaa	5.26	5.41	5.36	5.68	6.00	5.94	5.92	5.79	5.53	5.41	5.35	5.18

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

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