



BDO Seidman, LLP
Accountants and Consultants

**THE NEWSLETTER OF THE
BDO SEIDMAN NATIONAL
EMPLOYEE BENEFIT PLAN
AUDIT PRACTICE**

April 2009

BDO Seidman EBP Practice

BDO Seidman is nationally recognized in the field of consulting and auditing employee benefit plans. We audit nearly 1,000 plans nationwide, ranging from 100 participants to close to 300,000 participants. Our engagements are staffed with accountants experienced with all types of audits including defined contribution (401(k), profit sharing, ESOP), defined benefit (pension, cash balance) and health and welfare plans. We have extensive ERISA knowledge of audit and filing requirements, including full-scope, limited-scope, Form 11-K filings and Master trusts.

In addition, BDO has a National Employee Benefit Plan Audit Group that meets regularly to develop training and guidance, and discuss updates in the industry and best auditing practices. Members of the Group are regular presenters at local and national seminars. BDO has been and continues to be extensively involved as Chair of the American Institute of Certified Public Accountants ("AICPA") National Conferences on Employee Benefit Plans. BDO is also a member of the AICPA Employee Benefit Plan Audit Quality Center ("Quality Center"). BDO, through our National Employee Benefit Plan Audit Practice Leader, serves on the Executive Committee of the Quality Center. BDO was one of the 12 firms who were selected to help organize and provide direction to the AICPA staff regarding the formation of the Quality Center. BDO has also participated on the AICPA Employee Benefit Plan Expert Panel.

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The Big Picture

Understanding Changing Rules and Regulations and their Impact on EBP Audits

With the current difficult economic times and the changing rules and regulations from the Department of Labor ("DOL"), Internal Revenue Service ("IRS") and other regulators, it is essential that companies understand the impact on their plans and their plans' audits. Highlighted below are a few of the latest developments impacting your plans and their respective audits.

New Temporary Pension Funding Relief

On December 23, 2008, President Bush signed the Worker, Retiree and Employer Recovery Act of 2008 (the "Act"). Among other provisions, the Act provided technical corrections to the Pension Protection Act of 2006 ("PPA") and provided relief for defined benefit sponsors to ease their pension funding obligations over the next few years. Revisions to the PPA allow companies to smooth out unexpected asset losses arising from current economic conditions when determining how much they must contribute to reach required funding levels.

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157") to provide enhanced guidance for using fair value to measure assets and liabilities. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. This standard clarifies the definition of fair value and expands financial statement disclosures about the use of fair value measurements.

FAS 157 may have a significant effect on the financial reporting for employee benefit plans depending upon the types of investments held by the plan, such as, but not limited to, investments in stocks that may not be traded in an active market, employer securities, corporate bonds, government securities, investment and insurance contracts, common collective trusts, pooled separate accounts, limited partnerships, private equity funds, funds of funds, real estate and other hard-to-value investments.

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BDO's Employee Benefit Plan Audit Practice in the News

Bob Lavenberg, National Employee Benefit Plan Audit Practice Leader, was the Co-Chairperson and a speaker at the AICPA Employee Benefit Plans Accounting, Auditing and Regulatory Update Conference held in December 2008 in Washington, DC.

The Ohio Society of CPAs will sponsor its first annual Employee Benefit Plan Audit Conference on April 30, 2009, in Columbus, Ohio, at which **Bob Lavenberg** will present.

Bob Lavenberg and **Roland O'Brien**, Director Employee Benefit Plans in BDO Seidman's Pennsylvania office, will instruct at the Pennsylvania Institute of Certified Public Accountants Employee Benefit Plans Conference on May 4, and 5, 2009, in Harrisburg, Pennsylvania.

Mark Your Calendars...

May 18-20

AICPA National Conference on Employee Benefit Plans

Rosen Shingle Creek, Orlando, Florida

The AICPA National Conference on Employee Benefit Plans is for practitioners, administrators and plan sponsors. The only conference of its kind, both the tax and audit side of employee benefits are addressed. Hear leading practitioners share their insight, including members of the BDO Seidman Employee Benefit Plan Audit Practice (**Bob Lavenberg**, **Andrew Gibson** and **Tricia Van Vliet**).

From the asset perspective, FAS 157 defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. FAS 157 discusses acceptable valuation techniques available to plan sponsors, which would include a market approach, income approach and cost approach. The selection of a valuation technique or a combination of valuation techniques for each asset will depend on the circumstances. Generally, FAS 157 establishes a fair value hierarchy that distinguishes fair values based on quoted prices in active markets for identical assets (Level 1 Inputs); observable inputs, such as direct or indirect market-corroborated inputs (Level 2 Inputs); and unobservable inputs, such as values based on the reporting entity's own estimations about the assumptions that market participants would use in pricing the asset (Level 3 Inputs).

FAS 157 requires expanded financial statement disclosures about the use of fair value to measure plan investments. These disclosures include information to assess the inputs used to measure fair value by identifying the level within the fair value hierarchy into which each investment falls and some additional disclosures for those investments with significant unobservable inputs (Level 3) such as the effect of the measurements on changes in net assets for the period and a reconciliation of the beginning and ending balances, separately presenting changes during the period.

Plan sponsors bear the responsibility for implementing FAS 157 and the valuation process. To prepare for implementation, plan sponsors should contact the plan's service providers (trustees, custodians, or other investment service providers) immediately to understand how the Level 2 and Level 3 assets are valued and what information the service providers will provide in reports and certifications to support the assertions of fair value. Plan sponsors must have a sufficient understanding of the nature of the plan's investments and valuation methodologies, key assumptions and inputs used to determine fair value. Furthermore, Plan sponsors must determine that the methods used are appropriate under the FAS 157 fair value definition, whether the values presented are as of the plan's year end and obtain additional information about the valuation inputs to make the appropriate footnote disclosures required by FAS 157.

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Plan sponsors may face several challenges in implementing FAS 157, such as the recent liquidity freeze which has led to a lack of observable inputs and difficulty in measuring certain fair values in the absence of market transactions. Additionally, many plans outsource investment management activities to third party service providers, in which case information regarding the pricing and valuation of the plan's investments may not be fully transparent to the plan sponsor. For certain investments, it may even be necessary to hire additional valuation service firms to assist in valuing investments for which year end fair value information is not available.

403(b) Plans

In November 2007, the DOL issued amendments to the Form 5500 – Annual Return/Report of Employee Benefit Plan – for the 2009 plan year. One of the changes eliminated the exemption granted to Internal Revenue Code ("IRC") §403(b) retirement plans of IRC §501(c)(3) organizations, from the Form 5500 reporting, disclosure and audit requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), as

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amended. The removal of this exemption subjects ERISA-covered 403(b) plans to the same Form 5500 reporting and audit requirements as §401(k)-type plans.

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Generally, 403(b) plans sponsored by tax-exempt organizations are subject to ERISA whereas 403(b) plans sponsored by governments and most religious organizations are not covered under ERISA.

Many of these plans have been in existence since the late 1950s and companies will be faced with numerous challenges in preparing for the audit, such as gathering

plan accounting records, identifying all current and former participant accounts to be included as plan assets, determining the beginning account balances, and obtaining other financial information to be included in the plan's financial statements. As such, it is highly recommended that plan sponsors embark on gathering the necessary information as soon as possible in order to be able to meet the new requirements.

In response to these changes, the AICPA created a 403(b) Plan Audit Task Force which is chaired by Bob Lavenberg. The Task Force has issued several tools that maybe useful to 403(b) plan sponsors as they prepare to comply with the new rules.

Guidance on ERISA's Fidelity Bonding Requirements

Have you ever wondered what the bonding requirements for your plan under ERISA are or the impact of the PPA on such requirements, or if your company's fiduciary liability insurance covers ERISA's bonding requirements (it may not)? Well, you are not alone. As a result of numerous questions raised concerning the bonding requirement, the DOL Employee Benefits Security Administration issued Field Assistance Bulletin No. 2008-04, Guidance Regarding ERISA Fidelity Bonding Requirements (the "Bulletin"), in November 2008. This Bulletin provides guidance, in a question and answer format, concerning the application of ERISA's bonding requirements and the PPA's changes thereto.

In accordance with ERISA §412 and related regulations, generally every fiduciary of an employee benefit plan and every person who handles funds or other property of such a plan shall be bonded. ERISA's bonding requirements are intended to protect the plans from risk of loss due to fraud or dishonesty on the part of persons who handle plan funds or other property. A plan official must be bonded in an amount equal to at least 10% of the amount of funds handled, subject to a minimum bond amount of \$1,000. In most instances, the maximum bond amount that can be required under ERISA with respect to any one plan official is \$500,000 per plan or \$1,000,000 for plan officials of plans that hold employer securities.

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The entire Bulletin can be found at <http://www.dol.gov/ebsa/regs/fab2008-4.html>.

Helpful Links

AICPA Employee Benefit Plan Audit Quality Center – <http://ebpaqc.aicpa.org>

U.S. Department of Labor Employee Benefits Security Administration – <http://www.dol.gov/ebsa/>

Internal Revenue Service - <http://www.irs.gov/>

Friendly Reminders...

- Communicate now with service providers regarding information needed for the implementation of FAS 157
- Request from the service providers the auditor's year end reporting package
- Request and evaluate SAS 70 reports from all plan service providers
- Form 11-K filing deadline is 180 days after the plan's year end, generally for calendar year-end plans that would be June 29, 2009
- Form 5500 filing deadline is 7 months after the plan's year end, generally July 31, 2009, for calendar year-end plans (an extension of 2 1/2 months may be requested)

2009 Cost of Living Adjustments for Qualified Retirement Plans

The Internal Revenue Service announced cost-of-living adjustments applicable to dollar limitations for pension plans and other items for tax year 2009.

| Code Section | 2009 | 2008 | 2007 |
|---|----------------|-----------|-----------|
| 401(a)(17)/404(l) Annual Compensation | 245,000 | \$230,000 | \$225,000 |
| 402(g)(1) Elective Deferrals | 16,500 | 15,500 | 15,500 |
| 408(k)(2)(C) SEP Minimum Compensation | 550 | 500 | 500 |
| 408(k)(3)(C) SEP Maximum Compensation | 245,000 | 230,000 | 225,000 |
| 408(p)(2)(E) SIMPLE Maximum Contributions | 11,500 | 10,500 | 10,500 |
| 409(o)(1)(C) ESOP Limits | 985,000 | 935,000 | 915,000 |
| | 195,000 | 185,000 | 180,000 |
| 414(q)(1)(B) HCE Threshold | 110,000 | 105,000 | 100,000 |
| 414(v)(2)(B)(i) Catch-up Contributions | 5,500 | 5,000 | 5,000 |
| 414(v)(2)(B)(ii) Catch-up Contributions | 2,500 | 2,500 | 2,500 |
| 415(b)(1)(A) DB Limits | 195,000 | 185,000 | 180,000 |
| 415(c)(1)(A) DC Limits | 49,000 | 46,000 | 45,000 |
| 416(i)(1)(A)(i) Key Employee | 160,000 | 150,000 | 145,000 |
| 457(e)(15) Deferral Limits | 16,500 | 15,500 | 15,500 |
| 1.61-21(f)(5)(i) Control Employee | 95,000 | 90,000 | 90,000 |
| 1.61-21(f)(5)(iii) Control Employee | 195,000 | 185,000 | 180,000 |
| TWB | 106,800 | 102,000 | 97,500 |

Source : IRS Website <http://www.irs.gov/retirement/article/0,,id=96461,00.html>

BDO Seidman, LLP is a national professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. Guided by core values including, competence, honesty and integrity, professionalism, dedication, responsibility and accountability for almost 100 years, we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

BDO Seidman serves clients through 37 offices and more than 400 independent alliance firm locations nationwide. As a Member Firm of BDO International, BDO Seidman, LLP serves multi-national clients by leveraging a global network of 1,095 offices in 110 countries. BDO International is a worldwide network of public accounting firms, called BDO Member Firms. Each BDO Member Firm is an independent legal entity in its own country.