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KEY TAX DATES

JULY

31

Employers' Taxes. Employers of nonagricultural and nonhousehold employees must file return Form 941 to report income tax withholding and FICA taxes for the second quarter of 2011.

SEPTEMBER

15

Estimated Tax. Payment of third installment of 2011 estimated tax by calendar-year corporation.

Estimated Tax. Payment of third installment of 2011 estimated taxes by individuals, by trusts and by estates and certain residuary trusts in existence more than two years.

Corporations. Last day for filing 2010 income tax return by calendar-year corporations that have obtained automatic six-month filing extension.

DOL FEE DISCLOSURE RULES

by Scott R. Rain, J.D., Tax Senior

Individual 401(k) plan participants choose their investments from a list provided to them from the investment menu approved by their plan sponsor. Therefore, the plan sponsor must exercise its fiduciary duty to prudently select and monitor reasonable investment alternatives and the plan's service providers. In 2010, the Department of Labor published regulations intended to provide plan sponsors and plan service providers with guidance as to what information must be provided to ensure that their fiduciary obligations are being met.

Department of Labor Guidance

On July 15, 2010, the Department of Labor announced an interim final rule regarding ERISA Section 408(b)(2). The rule establishes specific disclosure obligations for retirement plan service providers to follow in order for those providers to be compensated for their services without engaging in a prohibited transaction. In general, the final rule requires that, beginning on January 1, 2012, “covered service providers” make certain fee disclosures, in writing, to the fiduciaries of “covered plans” in accordance with a prescribed timetable.

A “covered plan” is either a defined contribution plan or a defined benefit pension plan. The term does not include SEP IRAs, SIMPLE IRAs or IRAs.

Further, a “covered service provider” is a plan service provider that expects to receive at least \$1,000 in direct or indirect compensation in connection with the services they provide. Services include providing fiduciary or registered investment advisory services along with providing recordkeeping or brokerage services to a 401(k) plan. Services may also include providing other services, such as accounting, appraisal, auditing, custodial and third-party administration, for which indirect compensation is received.

A covered service provider must provide a description of the services to be provided to the plan and the direct and indirect compensation to be received pursuant to the contract or arrangement between the service provider and the plan fiduciary. Direct compensation is compensation received directly from the plan. Indirect compensation generally is compensation received from any source other than the plan sponsor, its covered service providers, affiliates or subcontractors.

The interim final rule requires that the disclosures be provided to the plan sponsors in advance of executing the final contract or agreement in order to provide the plan fiduciary with enough information to make a prudent decision regarding the reasonableness of the fees.

TOP STORY

IS A CAPTIVE INSURANCE COMPANY RIGHT FOR YOU?

by Kathy D. Petrucci, Tax Shareholder

In today's economic environment, many businesses are looking for ways to cut high insurance costs and still manage risks. Rather than exposing the business to self-insurance risks that could drain profits, we often recommend a captive insurance arrangement as a good alternative.

What is a captive insurance company?

Simply put, a captive insurance company is an insurance company that primarily insures the risks, or a portion thereof, of its parent or affiliated business. Captives are organized for the main purpose of self-funding the owners' risks. The owner/insureds actively participate in decisions influencing the underwriting, operations and investments of the captive.

There are many types of captive insurers, which can lead to some confusion over the term. Some captives, for example, are owned by a single parent or affiliate, and underwrite business risks only for that parent or affiliate, while others may be owned by and underwrite risks for a "group" association or industry. The services provided by the captive can also vary depending on the needs of the insureds. Some captives engage in underwriting through risk classification and pooling, while others may serve simply as a conduit through which the assumed risks are transferred to the reinsurance markets.

What risks does a captive insure?

Many businesses form captives to insure

against property and casualty risks associated with standard operations. Using the captive, a business would underwrite insured risk presently held with a commercial insurance company, self-insured risks or other hidden risks not covered by, or excluded by, commercial insurance companies. Some typical risks include workers' compensation, high deductibles, litigation expense, credit default, loss of key customers and suppliers, product liability and product recall, and property and business interruption.



How does a captive work?

The operations of a captive are similar to those of a commercial insurance company. A captive issues direct policies to the owner/insured business, collects premiums and pays any claims. Any profits remaining after claims are paid are left in the captive as underwriting profit.

How does a captive insurance company save money?

Typically, by using a captive to finance risks, businesses will be able to lower and stabilize costs over the long haul because the captive will be less susceptible to the ups and downs of the insurance industry.

Using a captive can also enable the business to obtain low-cost insurance coverage that might otherwise be unavailable or unaffordable in the commercial market. Premiums are based on the loss experience of

the captive, not on the income and expense needs of an insurance company.

If the captive arrangement is properly structured according to IRS rulings and guidelines, the insurance premiums paid by the business to the captive are tax-deductible. Also, if the insurance premiums paid to the captive are less than \$1.2 million, the captive can elect to be taxed only on the investment income and receive the underwriting income tax-free. Additionally, the lower-tax cost will result in a greater accumulation of wealth, which can later be distributed to the owner, or, with proper planning, passed on to heirs with no gift or estate tax.

What are the other benefits of a captive insurance company?

In addition to favorable tax and other cost benefits, captives help businesses to better

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KATHY D. PETRUCCI
TAX ADVISORS
Shareholder

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THIS NEWSLETTER.



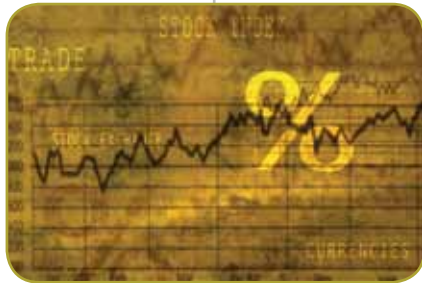
FEATURE ARTICLE

SOX RULES THE DAY

by Donald R. Owens, Director of Internal Audit and Risk Advisory Services

Public companies may have of late succumbed to an “all quiet on the western front” feeling as the SEC has published very little new guidance with respect to Sarbanes-Oxley (SOX) compliance over the past several months. Following the issuance of Auditing Standard No. 5 - *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, companies were inundated with guidance and clarification from the SEC and the auditing community on how best to employ a top-down, risk-based approach to assessing their internal controls over financial reporting (ICFR). Much of the focus of the guidance was directed at smaller accelerated filers (those with public float of \$250 million or less) and nonaccelerated filers (\$75 million or less).

Optimization of controls was a key driver, and most companies were successful in reducing the cost of compliance with SOX applying this approach. However, the cries for relief from Sarbanes-Oxley Section 404 continued to be heard from the smaller accelerated filers. This promoted inclusion within the Dodd-Frank Act of 2010 the requirement that the SEC conduct a study to determine the impact of 404(b), which is the auditor’s opinion on a company’s ICFR, on smaller accelerated filers (those with public float between \$75-250 million). The study (*Study and Recommendations on Section 404(b) of Sarbanes-Oxley Act of 2002 for Issuers with Public Float Between \$75 and \$250 Million*) was recently made public. It concluded that the potential cost savings of excluding these companies from the 404(b) requirement would not justify the



potential loss of protections and benefits to investors and, more specifically, that the protections afforded investors with respect to the auditor’s role in auditing the effectiveness of ICFR improves the reliability of disclosures and financial reporting. The study further noted that the cost to comply with Section 404 has been significantly reduced as companies and their auditors more effectively incorporated a top-down, risk-based

approach to validating and reporting on ICFR. In summary, what is currently in place appears to be the modus operandi going forward for those companies at the \$250 million threshold and down.

That does not imply that other matters will not affect a company’s efforts relating to maintaining a strong internal control environment. Two such matters that come to mind are PCAOB-driven. The first is the issuance of several new PCAOB standards focusing on audit quality and risk. As greater demands are placed on the audit profession to ensure compliance with these standards, public companies may be asked to provide additional support and evidence to substantiate that risks possibly impacting the reliability of financial information are effectively mitigated through the processes and controls the company has established. The second is the PCAOB’s recent directive to make audit reports more informative. According to Martin F. Baumann, Chief Auditor and Director of Professional Standards: “The auditor’s reporting model is a top standard-setting priority of the Board (PCAOB). To better inform their investment decisions, investors say they

need to hear more from the auditor about the risks the auditors faced in the audit and about the judgments and estimates management used in the financial statements.” This ambitious initiative will require auditors to more explicitly describe risks faced in the execution of the audit, and management’s use of judgments and estimates may require many companies to more extensively document methods and approaches in support of the heightened demands on audit report content and risk considerations.

A third compelling driver for public companies to ensure a strong effective internal control system is in place is the enhancements made to encourage and protect whistleblowers contained within the Dodd-Frank Act. Under the Act, the SEC is required to pay rewards to individuals who provide original information to the SEC resulting in monetary sanctions exceeding \$1 million on a company. The rewards can be sizeable at 10%-30% of the penalties imposed. It also creates a new private right of action for employees who have suffered retaliation for initiating, testifying in, or assisting in any investigation or judicial or administrative action of the Commission. Remedies include reinstatement, and double back pay with interest, as well as litigation costs, expert witness fees, and reasonable attorneys’ fees.

Taken as a whole, companies would be ill advised to simply maintain an internal control system that meets “minimal” requirements for compliance. ■



DONALD R. OWENS
INTERNAL AUDIT AND RISK ADVISORY
Director

NEWS YOU NEED

DOL RULES continued from Page 1

Further, a service provider must disclose any changes to the original terms as soon as administratively practicable, but no later than 60 days from the date that the service provider is informed of the change itself.

Failure to satisfy the requirements of Section 408(b)(2) as outlined above may result in the contract or arrangement with a service provider being deemed a prohibited transaction. Further, any failure could expose a plan fiduciary to additional possibilities of litigation from plan participants for not sponsoring a plan with reasonable plan expenses.

Next Steps

In order to be prepared for the requirements coming as a result of the above-mentioned DOL rules and regulations, plan sponsors and plan fiduciaries will have to work closely with their plan's service providers to meet their reporting obligations, and potentially revise any contracts or arrangements currently in place for plan services. The end result should be that the plan sponsor be able to identify the compensation received, both directly and indirectly, by its service providers.

Finally, keep in mind that the purpose of the new disclosure requirements is to encourage plan sponsors to pay more attention to the reasonableness of the fees the plan is paying. As a result, it is important that the process and procedures for periodically reviewing plan fees and plan investments be thorough. ■



SCOTT R. RAIN
TAX ADVISORS
Senior

Q & A

Schneider Downs Wealth Management Advisors, LP *Quarterly Column*

The Value Proposition of Multiple Employer Plans (MEPs)

*by Jeffery A. Acheson, QPFC, Partner/Managing Director, SD Retirement Plan Solutions
Schneider Downs Wealth Management Advisors, LP*

New 2012 Department of Labor (DOL) regulations regarding mandated and standardized fee disclosure requirements by retirement plan service providers have many plan sponsors looking for alternatives that offer potentially lower costs and reduced fiduciary liability exposure when compared to sponsoring a stand-alone plan. This is particularly true in the small plan market (plan assets <\$10 million), where cost-effective options are often hard to find because, when it comes to administrative and investment fees in retirement plan packages, size does matter.

Many industry pundits state that DOL regulations 408(b)(2) relating to employer disclosures and DOL 404(a)(5) relating to participant-level fee disclosures are catalysts for significant changes within the retirement plan landscape. (For insight and opinion on the potential impact of more detailed fee disclosures, a whitepaper by Dalbar Inc. on this subject can be accessed at: www.dalbar.com/Portals/dalbar/Cache/Homepage/AGameChanger.pdf.)

One alternative worthy of exploration in advance of these coming regulations is participation in a well-constructed Multiple Employer Plan (MEP). A MEP is a single qualified retirement plan housing multiple different "adopting employers" with common retirement plan objectives. This unique type of plan construct offers numerous advantages and administrative efficiencies

when compared with a typical stand-alone plan sponsored by a single employer.

Because a MEP is administered at the master-plan level by a lead plan sponsor, some of the benefits realized by each of the adopting employers include, but are not limited to:

- Scalable fee reduction opportunities based upon the overall size of the master plan
- No annual compliance reporting via Form 5500
- No ERISA plan audit requirements
- No plan document and amendment maintenance requirements

Of equal importance is the ability of plan sponsors to transfer a significant portion of their fiduciary responsibilities, including the associated liabilities, to the fiduciaries of the adopted master plan. Many current industry providers offer no fiduciary support to plan sponsors or restrict it to the selection, monitoring and replacement of investment options within the plan. This approach is limited at best, since it only covers a portion of the fiduciary compliance expected by the DOL.

For detailed information about MEPs or other retirement plan solutions available through Schneider Downs, please contact Jeff Acheson or Karl Kunkle. ■

SDNEWS

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CAPTIVE INSURANCE continued from Page 2

manage risks. Since the business owners control the captive, insurance policies can be tailored to meet the specific needs of the business in terms of scope of coverage, terms of deductibles, and levels of risks and premiums.

Conclusion

The current business environment is an opportune time to take a more active interest in controlling costs and managing risks. In the right situation, a captive insurance company can provide significant benefits. However, its review and implementation should not be taken lightly, since a captive insurance company involves a complex structure subject to rigorous tax and regulatory rules. Let the experts at Schneider Downs help you navigate the maze of complex rules, and help you determine if a captive is a good fit for you. ■

Around Schneider Downs



Schneider Downs Corporate Finance hosted more than 100 executives at its annual seminar, "The GENCO-ATC Merger: An Insider's View" on May 18, 2011. Herb Shear, Chairman and CEO, and Todd Peter, Vice Chairman, both from GENCO ATC, were the featured speakers. Don Linzer, CEO, and Peter Lieberman, Managing Director, both from Schneider Downs Corporate Finance, hosted the seminar in a setting reminiscent of PBS's *Charlie Rose* show. The Q&A format provided the audience with the opportunity to pose questions directly to Shear and Peters about the GENCO and ATC merger. Shear and Peters offered candid response to the questions, revealing

the steps to a successful merger. Of great interest to the audience was how a private company merged with a public company, and took the merged company private. A big thanks to Herb Shear and Todd Peters for providing an insider's view into the GENCO-ATC merger. Information about our Columbus seminar will be available in late summer/early fall. *Schneider Downs Corporate Finance is a registered broker dealer, member FINRA/SIPC.*

On June 1 and 2, the Pittsburgh office hosted a group of college accounting majors for the annual Summer Leadership Program. The goals of the program are to introduce the students to the public accounting profession and enhance personal skills that will be important to their professional future. Pictured here, Sean Smith, Director of Marketing, speaks to the students about the importance of creating a brand for yourself.



Michael Hasco, Senior Vice President of Global Accounts, Heinz North America, recently spoke to Schneider Downs' shareholders and managers as part of the firm's Leadership Speaker Series. Mr. Hasco discussed issues related to international business, excelling at customer service and building long-term relationships.



Michael Hasco and Ray Buehler



It was also Ray's birthday, so we surprised him with a cake!

New Hires

Our people are our greatest strength. We welcome our January, February and March new hires:

Melissa A. Aller	Matthew J. Lynch
Shiv Basu	Benjamin P. O'Leary
Brandon N. Cousins	Frank Pastor
Michael P. Deasy	Isaac X. Pearlman
James T. Gilboy	Kelly L. Romaker
Angela M. Gillis	Stephanie A. Vanscavish
Eric H. Ingalls	Charles D. Wakefield
Karen M. Lang	Marco Zivanov

CALENDAR - BENEFIT PLAN DUE DATES

Forms 5500, Annual Return/Report of Employee Benefit Plan.

Year-End	Due Date	With 5558 Extension
11/30	6/30/11	9/15/11
12/30	8/1/11	10/17/11
1/31	8/31/11	11/15/11

Processing of corrective distributions relative to failed 401(k) ADP/401(m) ACP discrimination testing, in order to avoid a 10% employer imposed excise tax.

Year-End	Due Date
3/31	6/15/11
4/30	7/15/11
5/31	8/15/11

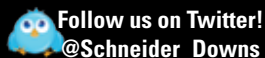
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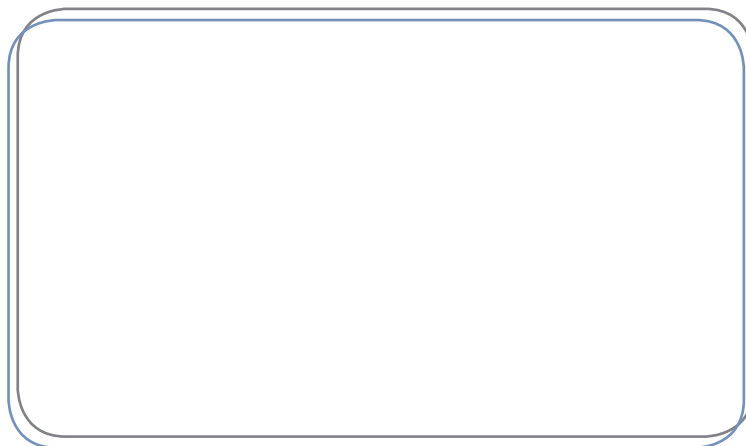
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PROFESSIONAL NEWS

David E. Kolan, Audit Shareholder, was appointed to the Board of Trustees of the Japan-America Society of Central Ohio and the Central Ohio European-American Chamber of Commerce Board of Directors.

Henry J. Szymanski, Jr., Director - Automotive Services Group, was quoted in the *Pittsburgh Business Times* article "Japan disaster ripples through Pittsburgh market" on April 8.

Raymond W. Buehler, Jr., President and CEO, attended a luncheon with the president of the Federal Reserve Bank of Cleveland. The purpose of the meeting was to discuss economic and business issues facing the region's organizations.

Joel M. Rosenthal, Business Advisory Shareholder, was appointed Board Chair of Jewish Family and Children's Services of Pittsburgh.

Mary D. Richter, Tax Shareholder, presented "ASC Topic 740-10 and Schedule UTP" at the Allegheny Tax Society. Mary also attended the Duquesne University Business School Senior/Alumni Luncheon.

Michael S. Collins, Human Resources Assistant Director, received his Senior Professional in Human Resources (SPHR) certification.

Cynthia J. Hoffman, Director - International Tax Advisory Services, presented at a May 12 seminar, "Doing Business in the U.S." in Manchester, U.K. She also presented on a panel at the IGAF Polaris European Tax and Finance Conference in Barcelona, Spain on May 15.

Lauren E. Craig, Audit Manager, was appointed to the Board of Directors of Manchester Bidwell Corporation.

Matthew M. McKinnon, Tax Senior Manager, presented "Federal Tax Incentives for Construction Contractors" to the Builders Exchange of Central Ohio I-X Group on May 10.

Eric M. Wright, Technology Advisors Shareholder, and **Frank E. Dezort III**, Technology Advisors Senior Manager, presented SSAE 16 guidance and the impact on internal audit at The Institute of Internal Auditors meeting.

Steven T. Franz, Audit Senior Manager, was appointed Treasurer of Middle Road Athletic Association.

Angela M. Gillis, Internal Audit and Risk Advisory Manager, was elected as an officer for the Central Ohio Chapter of The Institute of Internal Auditors.

Michael A. Renzelman, Audit Shareholder; **Timothy M. Hammer**, Audit Shareholder; **Jeanne M. Barrett**, Audit Senior Manager; **Lara E. Fuller**, Audit Senior Manager; and **Todd J. Lucas**, Audit Manager, attended the AICPA Employee Benefit Conference.

Michael J. Streza, Senior Network Engineer, was elected to the Board of Management for the North Boroughs YMCA.

Donald R. Owens, Internal Audit and Risk Advisory Director, and **Frank A. Wischart**, Business Advisory Services Director, presented "Designing Organizational Fraud Controls" at the Advising Corporate Directors and Officers seminar sponsored by the Ohio State Bar Association.