BKD Advisor

June 2002

Strategies to Build Your Business & Personal Net Worth

Tuition savings programs

Qualified tuition savings programs, also known as Section 529 plans, have become popular because they permit parents, grandparents or anyone else, for that matter, to fund a future college education for children, grandchildren and certain other relatives on a tax-favored basis.

Contributions to these plans reduce the size of the donor's estate. However contributions WealthPlan that exceed the annual gift exclusion amount may be subject to the gift tax. Furthermore, the funds grow tax deferred inside the account. In most cases, the donor retains control of the funds and can make investment decisions about them.

Beginning in 2002, the plans have the following additional advantages:

- ✔ Taxpayers can make a tax-free rollover of investments from one state's plan into another Section 529 plan once every 12 months
- ✔ Taxpayers can contribute to both a Section 529 plan and an education individual retirement account (IRA) for the same beneficiary in the same year
- ✔ Qualified higher education expenses now include the cost of room and board as determined by each institution
- ✔ Effective in 2002, withdrawals for educational purposes are tax free

Individual states may provide added tax benefits for these plans, making them an even more desirable planning device for tax and education.

Employee skimming

Skimming incoming funds is one of the most common forms of cash misappropriation by employees. The term skimming is used because the cash is taken off the top, just as cream is skimmed from the top of milk. Since skimming is a pure theft that does not require manipulation of the accounting records, it occurs more frequently.

The primary skimming targets are sales revenue, refunds and payments of customer receivables. Typically, salespeople, cashiers, mail clerks and bookkeepers who come in contact with cash are most likely to be involved in the theft. However, managers who can override the control system also may be involved.

No matter which source of funds is targeted, the result is always the same—revenue is reduced, while the cost of obtaining the revenue remains constant. The following are possible indications someone may be skimming:

- ✔ Reduction in overall revenue
- ✔ Increase in cost of sales as a percentage of revenue
- ✔ Increase in inventory shrinkage
- ✔ Decline in the ratio of cash

Tax tip

The Internal Revenue Service (IRS) has approved a twist on reverse like-kind exchange transactions in which the seller acquires the replacement real estate before sale of the original property.

Here, an accommodator (one who facilitates the like-kind exchange by holding title to the property) holds the property in escrow until the exchange is completed.

The IRS says the titleholder can act as the customer's agent for state law purposes, and it will approve a swap where the exchange accommodator agrees to act as the customer's agent. This will save local transfer taxes that would apply when the escrowed property is subsequently transferred to the purchaser.❑

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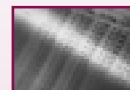

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sales to total sales or credit card sales

- ✔ Increase in the ratio of gross sales to net sales
- ✔ Discrepancies between customer payables and company receivables
- ✔ Missing or altered refund documentation

Family office services

Although once used exclusively by super-wealthy families and successful members of the entertainment industry, family office services are now being provided as additional personal financial planning services for all clients who need help managing their wealth.

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These additional services include:

- ✔ Personal financial statements
- ✔ Cash-flow planning
- ✔ Banking and bill paying
- ✔ Budgeting
- ✔ Document and record management
- ✔ Trust administration and philanthropy administration services

Defined contribution health plans

Some employers are experimenting with defined contribution health plans in the belief that when the employee is in charge of spending, there will be a natural incentive to reduce costs.

Typically, features of these plans include:

- ✔ The employee receives a medical account funded with a specified sum of money annually to use for virtually any health service
- ✔ Each medical or pharmaceutical bill submitted by the employee is deducted from the account balance
- ✔ When the account balance reaches zero, the employee is responsible for payment of his/her additional health care expenses up to a certain limit ($1,000 for example)
- ✔ Once the out-of-pocket limit has been reached, the company pays 100% of the employee's health care costs again
- ✔ If the balance of the account is not used up in any year, it can be rolled forward to the following year, adding to the total outlay that will be covered

Employees favor these plans because they have greater control over their health care outlays and because they eliminate:

- ✔ Paperwork for claims
- ✔ Requirements to stay in a network and obtain referrals
- ✔ Copayment requirements
- ✔ Administrative hassles common to traditional plans

Employers, in turn, also achieve greater control over health care expenditures for employees and may achieve overall savings because employees have a strong incentive not to waste their health care allowance.

Cash-basis tax accounting

In a major victory for small businesses, the IRS is allowing greater use of the cash method of accounting. Last year, the IRS changed its rules to allow any firm grossing an average of $1 million or less in the prior three years to use the cash method of accounting for tax purposes.

New regulations raise the limit for businesses to average annual gross receipts of up to $10 million, even if they keep inventories, applicable for taxable years ending on or after December 31, 2001.

Under the new rules, for a small business to be eligible to use the cash method of accounting, besides the limit on gross receipts, the business's principal business activity must be able to meet any one of the following safe harbors:

- ✔ It is not retailing, wholesaling, manufacturing, mining, publishing or sound recording
- ✔ It provides services, even if the taxpayer provides property incident to those services

Avoid overpayments with third-party administrator audits

by Randy Hamil, Tulsa

It is not uncommon for 2% to 5% of overall health care costs for large, self-insured employers to be the result of overpayments made to health care providers by the employer's third-party administrator (TPA).

Whether TPAs are paying providers under full-risk agreements or under the more traditional discounted fee-for-service agreements, the result is the same. Every year overpayments account for millions of dollars in excess costs for self-insured employers at a time when they are struggling to keep rising health care costs in check.

Therefore, it's essential that self-insured employers verify their TPA reimburses providers only for covered benefits and at the agreed-upon rates for specified services.

One method used to identify overpayments is a detailed claims audit. A claims audit should include documentation of evidence to support the overpayment of claims and contractual noncompliance.

"Self-insured employers should take steps to collect all revenues due them as a result of overpaid claims by their TPA."

Self-insured employers that attempt to audit contracts often depend on data, methodologies and calculations of the TPA. However, to determine the full scope of overpayment errors, an audit should include the actual contractual relationships between employers, TPAs and health care providers.

To account for all overpayments due to self-insured employers, employers should require an audit focused on the accuracy and timeliness of claims payments made to providers, covering the following areas:

- ✔ Claims paid at the wrong contractual rates
- ✔ Duplicate claims payments
- ✔ Claims paid for noncovered benefits
- ✔ Claims paid with disregard for timely filing limitations
- ✔ Errors made in the coordination of benefits

Self-insured employers should take steps to collect all revenues due them as a result of overpaid claims by their TPA. BKD Health Care Group has experience with TPA audits. Contact your BKD advisor for more information.❏

✔ It is custom manufacturing

Regardless of the primary business activity, the cash method may be used with respect to any separate and distinct trade or business that satisfies one of the above safe harbors.

For regular C corporations to be eligible to use the cash accounting rather than the accrual method of accounting, generally, gross receipts cannot exceed $5 million.

Monitoring inventory

Usually, receiving departments are required to make incoming material counts whenever goods are received to ensure quantities conform to what was ordered and what the vendor claims to be shipping. Unfortunately, there is often a tendency to accept whatever is shown on the packing slip without an independent count.

Make it a practice to spot-check or audit incoming material counts on a sampling basis. Not only does the practice keep your receiving personnel on their toes, it also provides important data that can be used to measure vendor performance and identify those that chronically make short shipments or fail to abide by quality standards established by your firm.

Restaurants get a tax break

Bars and restaurants are getting a tax break with respect to smallwares (glasses, plates, utensils, bar supplies, small appliances costing $500 or less, etc.) they buy. The IRS says the cost of replacement smallwares can be expensed, and each item does not need to be accounted for separately and then depreciated.

However, the cost of smallwares does have to be capitalized if the buyer is not already in the restaurant business and the smallwares are purchased before the new establishment opens for business.

Controlling workers' comp

Workers' compensation insurance coverage is much more difficult to obtain since September 11, and premiums in many areas are increasing from 30% to 100%.

If you are renewing an existing policy, make sure you do everything possible to reduce premiums. For example, know when your experience multiplier was last reviewed. The experience multiplier is based on your business risk and your claims experience and the lower the multiplier the lower your premiums.

Other premium-saving strategies include:

- ✔ Determine whether employee classifications currently being used are correct, and determine whether lower risk classifications might be appropriate for some workers
- ✔ Find out if discounts promised by the insurer are actually being provided, and whether you may be entitled to additional discounts
- ✔ Review the accuracy and timeliness of your company's loss information reporting over the past seven years to determine whether the insurer should have provided premium rebates

It's estimated almost half of all employers are overcharged annually for workers' comp costs by insurers, so a thorough review may be effective in lowering current and past workers' compensation costs.❑

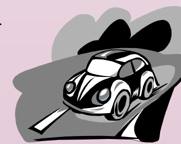
Economic stimulus package passes

The Job Creation and Worker Assistance Act of 2002 was signed into law March 9. It contains a variety of tax-relief provisions, primarily for businesses. The centerpiece of the tax provisions, however, is the new 30% allowance for newly acquired assets.

Under the new provision, companies are eligible to write off 30% of the cost of qualifying new assets placed in service after September 10, 2001, and before September 11, 2004. The remainder of the cost is recovered pursuant to regular depreciation schedules.

Qualifying assets are, generally, those with depreciable lives of 20 years or less, including machinery and equipment, certain leasehold improvements, land improvements and farm buildings. The depreciation on these assets would be the same for alternative minimum tax (AMT).

Other tax provisions include:



- ✔ The maximum first-year depreciation on automobiles and light trucks used in a business is raised to $7,660 for vehicles placed in service subsequent to September 10, 2001
- ✔ The carryback of net-operating losses has been extended to five years from two years, retroactive to years ending after 2000, so that it applies to businesses with a loss in the 2000-2001 fiscal year
- ✔ For tax years ending in 2001 and 2002, loss carryovers can offset 100% of the AMT income instead of 90%
- ✔ S corporation owners are precluded from raising their tax basis in the company by the amount of tax-free income from debts forgiven after October 11, 2001, and in certain bankruptcy cases after February 28, 2002, limiting the amount of losses the S firm owner can deduct
- ✔ Teachers will be eligible to make a modification to their AGI of up to $250 per year for 2002 and 2003 for classroom materials they purchase
- ✔ For 2002 and 2003 plan years, defined benefit plans will be able to use higher interest rates to calculate required pension pay-ins and government insurance premiums, reducing both the plan contribution and government premium payment requirements
- ✔ A series of expiring tax provisions have again been extended, including AMT relief for claiming dependent care and the work opportunity and welfare-to-work credits
- ✔ Archer medical savings accounts will remain in effect though 2003, and the regulations requiring parity between physical and mental health benefits are extended through 2003
- ✔ The ceiling on percentage depletion for marginal oil and gas wells is suspended through 2003, meaning it can exceed 100% of the property's net income

Since some of the provisions affect 2001, taxpayers who have already filed their taxes may have to file amended returns to obtain benefits provided in the legislation.❑

Risk is a four-letter word

by Wayne Starr, BKD Wealth Advisors, LLC

Stock market returns in 2000 and 2001 have forced investors once again to recognize there is risk in investing.

In the mid-to-late '90s, the only stock market risk investors recognized was the risk of not being in the market. They did not want to miss the fat returns generated by technology and the Internet. They dismissed the time-proven fact that markets fall, as well as rise. They said, "it's different this time." It wasn't.

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Business owners accept risk

When it comes to risk, business owners are a special breed. The entrepreneur is, by nature, a risk-taker. Webster defines an entrepreneur as "someone who organizes, manages and assumes the risks of a business or enterprise."

Business owners assume risk because they know the business in which they are investing their time and money. If not, they quickly learn the risks and figure out how to manage them or they will fail.

Generally, their interest in the business is the most significant asset on entrepreneurs' personal financial statements. They may have relatively little in the way of other assets. Entrepreneurs are not diversified. They know it and accept it because they embrace the risk of the business.

Risk equals uncertainty

In investment management, risk is often equated with the uncertainty (variability or standard deviation) of possible returns around the expected return. Investors, however, do not typically think in terms of expected return and standard deviation. More often, investors think of risk in terms of the dictionary definition: the chance of loss.

It is more accurate to think of investors as typically being loss-averse rather than risk-averse. You may feel the variability in your returns from year-to-year is OK as long as there are no negative returns.

Investors also tend to think in terms of nominal rather than real returns, which adds to the loss-aversion problem. For example, you may feel better about earning 5% after taxes in a 12% inflationary environment than about losing 1% in a 4% inflationary environment.

The positive nominal gain of 5% creates the illusion of getting ahead. When adjusted for the 12% inflation rate, the loss is 7%. You would be better off losing 1% in the 4% inflationary environment, which causes a smaller real loss of 5%.

To understand risk and be able to identify it, you must think beyond the stock market because all investments have elements of risk. The sources of risk cited by Charles P. Jones in **Investments Analysis and Management** are numerous, including:

Interest rate risk - Variability in a security's return because of changes in the level of interest rates is referred to as interest rate risk. Such changes generally affect securities inversely, *i.e.,* other things being equal, security prices move opposite to interest rates.

Interest rate risk affects bonds more directly than common stocks and is a major risk faced by all bondholders. As interest rates change, bond prices also move in the opposite direction.

Market risk - Variability in returns that result from fluctuations in the overall or aggregate stock market is referred to as market risk. All securities are exposed to market risk, although it affects primarily common stocks.

Market risk includes a wide range of factors unrelated to securities themselves, including recessions, wars, structural changes in the economy and changes in consumer preferences.

Inflation risk - Purchasing power risk, or the chance that the purchasing power of invested dollars will decline, affects all securities. With uncertain inflation, the real or inflation-adjusted return involves risk even if the nominal return is safe, *e.g.,* a Treasury bond.

This risk is related to interest rate risk. Interest rates generally rise as inflation increases, because lenders demand additional inflation premiums to compensate for the loss of purchasing power.

Business risk - The risk of doing business in a particular industry or environment is called business risk. For example, as one of the largest steel producers, U.S. Steel faces unique problems. Similarly, events like the global oil situation and Japanese imports leave General Motors facing its own set of unique problems.

Financial risk - Financial risk is associated with the use of debt financing by companies. The larger the proportion of assets financed by debt, as opposed to equity, the larger the variability in the returns. Financial risk involves the concept of financial leverage.

Liquidity risk - Liquidity risk is associated with the particular secondary market in which a security trades. An investment that can be bought or sold quickly and without significant price concession is considered liquid.

The more uncertainty about the time element and the price concession, the greater the liquidity risk. A Treasury bill has little or no liquidity risk, whereas a small over-the-counter (OTC) stock may have substantial liquidity risk.

Exchange rate risk - All international investors in today's increasingly global investment arena face the prospect of uncertainty in the returns after converting foreign gains back to their own currency. This variability in returns on securities caused by

(continued on page 6)

Lower interest rates provide greater tax breaks

by William Metzger, Indianapolis

With commercial interest rates at historic lows, clients are encouraged to consider planning strategies that benefit from the IRS applicable federal rates (AFR), which also are at historic lows. These low rates provide opportunities for passing wealth between generations with little, if any, gift-tax cost.

The IRS publishes its short-, mid- and long-term rates monthly based on recent yields of marketable Treasury obligations. For example, the short-term AFR is derived from maturities of three years or less. Recently, the short-term AFR has been less than 3%.

Low interest intrafamily loans

An intrafamily loan if properly structured can provide a significant benefit to a junior family borrower with minimal income tax effects to the senior family lender. The terms of this type of note can be tailored to meet the needs of the borrower, *e.g.*, interest only for a specific period. In addition, these loans can be made at interest rates below those charged by commercial banks.

Intrafamily loans should not be created with the express or implied understanding the loan will be forgiven over time, as this may lead the IRS to deem the loan a gift at the inception date of the loan.

However, it is possible, once the loan is in place, for the senior family lender to forgive interest and/or principal on a year-to-year basis. Any forgiveness of interest or principal constitutes a present interest taxable gift (and may have income tax implications). These types of gifts qualify for the annual exclusion, presently $11,000 per recipient.

A further refinement of the intrafamily loan is an installment sale to an intentionally defective trust. With this strategy, a senior family member sells an appreciated asset to an irrevocable grantor trust that benefits junior family members. The assets are sold to the trust in return for a promissory note that carries interest at the applicable federal rate.

Because the sale is to a grantor trust, the seller is treated as the owner of the trust for income tax purposes, but not for estate tax purposes. Therefore, the sale to the trust does not trigger a taxable gain to the seller.

Estate tax benefits will result, as the appreciating trust asset will not be included in the estate of the senior family member. However, the unpaid balance on the promissory note will be included in the estate.

This strategy makes sense when the senior family member owns an asset that is expected to appreciate significantly over the term of the note. The growth of the asset in excess of the applicable federal rate can pass through the grantor trust to the junior family members without gift tax implications.

More successful strategies

Another estate-planning strategy that works during a low interest rate environment is a grantor retained annuity trust (GRAT).

A GRAT is specifically recognized by the Internal Revenue Code. With this strategy, a senior family member creates a trust for the future benefit of junior family members. To ease the gift tax impact, the creator receives an annuity interest such that only a residual interest is transferred to the junior members.

If the investment performance of the trust property exceeds the appropriate AFR (currently at historic lows), excess appreciation passes to the junior family members with little gift tax consequences to the senior family member who created the trust. If the grantor of the trust dies before the GRAT terminates, the trust assets are included in his/her estate for estate tax purposes.

The opportunity to pass wealth between generations has never been more attractive, due in part to reduced market valuations but also because these techniques benefit from historically low interest rates.

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Contact your BKD advisor to discuss how these strategies may benefit you and your family.❑

Wealth planners hear from industry leaders

Howard Sharfman of Schwartz Benefit Services, Inc., insurance brokers, was just one of several featured speakers at BKD's 2002 WealthPlan Conference in April. Sharfman discussed insurance solutions for clients.

Howard Sharfman

The conference, designed to update BKD's WealthPlan professionals on investment opportunities and tax strategies, also featured:

- ✔ Gus Fleites of State Street Global Advisors addressed the global recovery and its effect on investments
- ✔ Kevin Howley of Fidelity discussed asset allocation strategies in the current market
- ✔ Chris Trokey of Goldman Sachs spoke on single stock risk management

Market commentary: first quarter 2002

by Jeff Layman, BKD Wealth Advisors, LLC

Both the stock and bond markets treaded water in the first quarter. Several signs of improvement in the economy surfaced, but many companies remained cautious about near-term business conditions and profits.

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- ✔ The U.S. economy began to show signs of a positive response to the multiple Fed interest rate cuts made during 2001. Several pieces of economic data were presented in the first quarter that pointed toward renewed strength in the economy, including:
  - ▲ The first expansionary reading for the Institute for Supply Management's manufacturing index (formerly NAPM) in 18 months.
  - ▲ Revised gross domestic product (GDP) data indicated the economy grew 1.4% in the fourth quarter of 2001, refuting the prior expectation of a contraction for the period.
  - ▲ Auto sales exceeded expectations, causing automakers to increase scheduled production for 2002.
  - ▲ Existing home sales reached a record level in January, indicating a confident consumer. Steady consumer spending last year kept the recession from being worse than it was.
- ✔ The release of this and other economic data caused Fed Chairman Alan Greenspan to note in his semi-annual testimony on monetary policy that recent evidence increasingly suggests an economic expansion is well under way. The Fed adopted a "neutral" bias on interest rates, indicating rate cuts are likely over for this cycle.
- ✔ Despite recent strength in the economy, the 1.1% increase in the Consumer Price Index for the 12 months ending in February 2002 marked the lowest rate of inflation since 1964.
- ✔ The collapse of business spending on technology products and other equipment led the U.S. economy into recession in 2001. Continued strengthening in the economy and a corresponding gain in stock prices largely depend on the willingness of U.S. business to begin spending and investing once again.❏

First Quarter 2002

S&P 500	.28%
NASDAQ Composite	(5.39%)
Russell 2000	3.98%
MSCI EAFE	.06%
Lehman Aggregate Bond	.09%
Lehman Municipal Bond	.94%

Tale of the Tape

Selected Returns through May 15, 2002

Benchmarks	1 Year	Year to Date
DOW	-8.67%	2.22%
S&P 500	-15.09%	-4.97%
NASDAQ Composite	-11.21%	-1.74%
Russell 2000	3.28%	5.13%
Selected Asset Classes - Mutual Funds		
Large Cap Growth		-7.87%
Large Cap Value		-0.73%
Mid Cap Growth		-5.26%
Mid Cap Value		7.35%
Small Cap Growth		-3.31%
Small Cap Value		11.06%
Science & Technology		16.37%
International		4.7%

Source - **Wall Street Journal**, May 15, 2002. As with a portfolio of all stocks and bonds, a diversified portfolio gives no guarantee of safety of principal, which is subject to fluctuation.

Risk is a four-letter. . .

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currency fluctuations or exchange rate risk is sometimes called currency risk.

Country risk - Country risk, also referred to as political risk, is important because of increased international investing. International investments, whether directly or indirectly, are affected by the political and economic stability and viability of a country.

Multiple risks - Investing would be easier if you could look at a given investment and see only one kind of risk, but, normally more than one kind of risk is present.

However, through asset allocation (the process of selecting the mix of asset classes that will provide the greatest chance of reaching a stated investment objective while reducing risk), you can select a breadth and degree of portfolio diversification that recognizes risk is truly a four-letter word.❏

Retaining international assignees

by Callan Hovland, Indianapolis

Do you have employees on international assignment? Have you considered sending an employee abroad to expand operations or grow your market share? If so, read on.

- ✔ The average cost of sending a U.S. citizen, with a base salary of $100,000, on a three-year international assignment is $1 million
- ✔ Approximately 20% of employees leave the company within one year of returning from an international assignment
- ✔ Approximately 50% of employees leave the company within three years of returning from an international assignment

Some organizations go to great lengths to ensure international assignments run smoothly. They hire international specialists to develop compensation and benefit plans and tend to related tax, visa and immigration issues. Outside vendors provide cultural training, facilitate housing arrangements and see that children are placed in the proper schools.

Yet all too often, international assignees leave the company soon after returning home—taking with them the experience, knowledge and skills acquired abroad. Worse yet, they often leave to work for your competitor! Your investment is now working against you.

What can you do?

Stop sending employees abroad? Absolutely not. Today, it's estimated more than 40% of revenue comes from foreign opportunities. This percentage increases each year.

To keep up in the international marketplace, companies large and small send employees abroad to start foreign operations, oversee production and expand overseas operations. As the concept of a global workforce continues to grow, the realization that an international assignee is truly an investment is catching on.

Examine the cause

Studies show employees accept international assignments primarily for the challenge, education and adventure of this life-changing experience. Money isn't the primary motivator.

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Employer's update on retirement plans

2002 retirement plan limitations

Limits on various pension plan contributions and deferrals were raised for 2002, including:

- ✔ Elective deferrals for 401(k), 403(b) and SAR-SEP retirement plans increase to $11,000
- ✔ SIMPLE retirement contribution limits rise to $7,000
- ✔ Contribution limits to traditional and Roth IRAs increase to $3,000
- ✔ State and local governments and tax-exempt organization plan contribution limits to Section 457 plans rise to $11,000
- ✔ Catch-up pay-in caps for people born before 1953 are set at $500 for IRAs and Roth IRAs and $1,000 for 401(k), 403(b) and 457 plans
- ✔ IRA deduction phase-outs start at $54,000 of AGI for married taxpayers and $34,000 for singles

For business owners with a SEP-IRA or a Keogh plan, the maximum deductible contribution for the business owner's SEP or profit-sharing Keogh plan will be the lesser of $40,000 or 20% of net earnings. If they have employees, the maximum deductible percentage for the employees will be 25% of compensation.

Automatic 401(k) enrollment

Recent regulatory changes permit an employer to automatically enroll new employees in a 401(k) plan unless the employee specifically requests not to be enrolled.

The rule change was designed to enhance participation in 401(k) plans so disqualification for discrimination in favor of highly paid employees would be less likely. However, employees must be given notice that they will be automatically enrolled in the plan and be given an opportunity to "opt out."

Increasing elective deferrals

Only 27% of 401(k) plan participants make annual contributions up to the maximum $11,000 limit allowed. In effect, 73% contribute less than they could to the plan. The shortfall has an enormous negative effect on the total retirement accumulation of participants in their 30s or 40s and explains why so many people at the end of their working career have insufficient retirement income.

Major factors underlying the failure to make adequate annual contributions include a lack of understanding about the cumulative effect of making sufficient retirement plan contributions, inability of workers to project post-retirement income requirements and an overall lack of financial discipline.

Workers are concerned about retirement income, and more than 75% indicate they would welcome retirement planning advice.

IRS audits 401(k) plans

The IRS is auditing 401(k) plans and levying fines when it finds companies have violated the regulations. The IRS has issued statistics showing 41% of small plans (under 16 employees) and 47% of medium plans (17 - 53 employees) examined have violations.

Areas receiving special scrutiny include:

- ✔ Failure to withhold taxes on disbursements to employees
- ✔ Violation of loan provisions, such as excessive loan amounts and failure to abide by five-year loan term limits
- ✔ Insufficient time frame between the time an employee makes a hardship withdrawal and the time the employee can again make elective contributions

To avoid a run-in with the IRS, many employers opt for an annual plan review by one of our pension consultants.❑

Retaining international assignees. . .

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Lack of a proper reintegration process is the main reason so many expatriates leave the company after returning home. The following data, based on an MBA research project conducted by Pierre Haldemann in 1999, identifies common problems related to the reintegration process. When expatriates were asked:

- ✔ 65% thought their company didn't provide enough support
- ✔ 58% expected the international posting to be beneficial in terms of future promotions
- ✔ 50% found coming back more difficult than going out
- ✔ 50% were satisfied with the company's praise
- ✔ 46% thought the company didn't give them enough credit for their contributions
- ✔ 38% felt useless and as if they had been demoted when they returned
- ✔ 27% said reintegration was very stressful

What it means

International assignees return home eager with anticipation but are usually unprepared for the reverse culture shock. After they gain global knowledge, acquire new skills and develop an understanding of other cultures and business methods, most employees feel unappreciated when they return home.

Some assignees went from one company to another in a matter of weeks because another firm was prepared to send them back on assignment or offered to make use of their newly acquired knowledge.

Without proper planning, your assignee may leave for a company that will appreciate them.

When you consider the possibility of sending an employee abroad, ask these questions:

- ✔ What is the corporate vision?
- ✔ How is global business and economy defined?
- ✔ What are the plans, goals and rewards for the company and the individual?
- ✔ What does the company expect to receive in exchange for this large investment?
- ✔ How will the company prepare for the employee's return home?

When you address these questions before an employee is sent abroad, the probability of a successful international assignment increases. Your investment now takes your company from a single, U.S. perspective to a global knowledge of doing business.

An ounce of prevention

Whether your organization sends one employee on international assignment or has a large global workforce, you and your competitor have one thing in common: the bottom line. Don't let your investment work against you.

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For more information on entering the global workforce, the expatriate process and retaining your international assignees, contact your BKD advisor.❏

Expatriate assignment solutions from BKD

In today's expanding marketplace, competing globally is crucial, even for companies that may be unprepared for the overwhelming details involved in assigning employees internationally.

BKD has joined with several Moores Rowland International firms to form the Expatriate Assignment Solutions Group (EAS), under the direction of **Rob Wagner**, BKD partner, Indianapolis.

EAS provides an alternative to the international accounting firms when companies need help decreasing worldwide tax obligations and easing the administrative burdens of assigning employees to foreign locations.

"EAS also is forming alliances to provide expatriate services outside of tax," says BKD's **Callan Hovland**, Indianapolis. "For example, such alliances could provide technology, human resources and relocation services."

"It's no longer just the IBMs that assign workers internationally," says Hovland, "and whether it's one worker or a hundred, EAS can provide a valuable service."❏

How to Reach BKD

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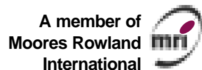
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