

ConfidentVision

Solving the Unique Retirement Problems of High Income Professionals and Entrepreneurs

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Disclosures

Income Tax Free Death Benefit

For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e., the “transfer-for-value rule”); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

Tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death; (3) withdrawals taken during the first 15 policy years do not occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC §7702(f)(7)(B),7702A. Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.

Estate Tax

From January 1, 2012 to December 31, 2012, the federal estate tax exemption amount is \$5,120,000; the maximum estate tax rate is 35%; and, the rules regarding step-up in basis for property transferred at death are reinstated. Also over the same time period, if the executor of a deceased spouse’s estate so elects, the surviving spouse could later use his or her own unused estate tax exemption, plus the unused exemption of his or her most recently deceased spouse.

IRS Circular 230 Disclosure

IRS regulations effective June 20, 2005, require us to notify you that this communication was not intended or written by this firm to be used, and cannot be used for the purpose of avoiding penalties that the IRS might impose.

Life Insurance Disclosure

As with all uses of life insurance, the amount of life insurance coverage asked for in conjunction with this concept may be limited by Pacific Life Insurance Company’s financial underwriting guidelines. Financial underwriting is an assessment of whether the proposed death benefit is a reasonable replacement for the financial loss caused by the death of the insured.

Most Business Owners complain about

- “ How much tax they pay?
- “ How few significant deductions are left for high income taxpayers?
- “ No one is bringing new ideas to the table.

Concerns and Dangers

- “ Overwhelmed by the complexities of tax issues.
- “ The time, attention and effort wasted on %stuff+is killing them.
- “ Confused by the massive level of information received.
- “ Lack of coordination between advisors
- “ Concerns as to whether there will be enough money to retire some day.

Pension Protection Act of 2006

Enhances Functionality of Defined Benefit Plans

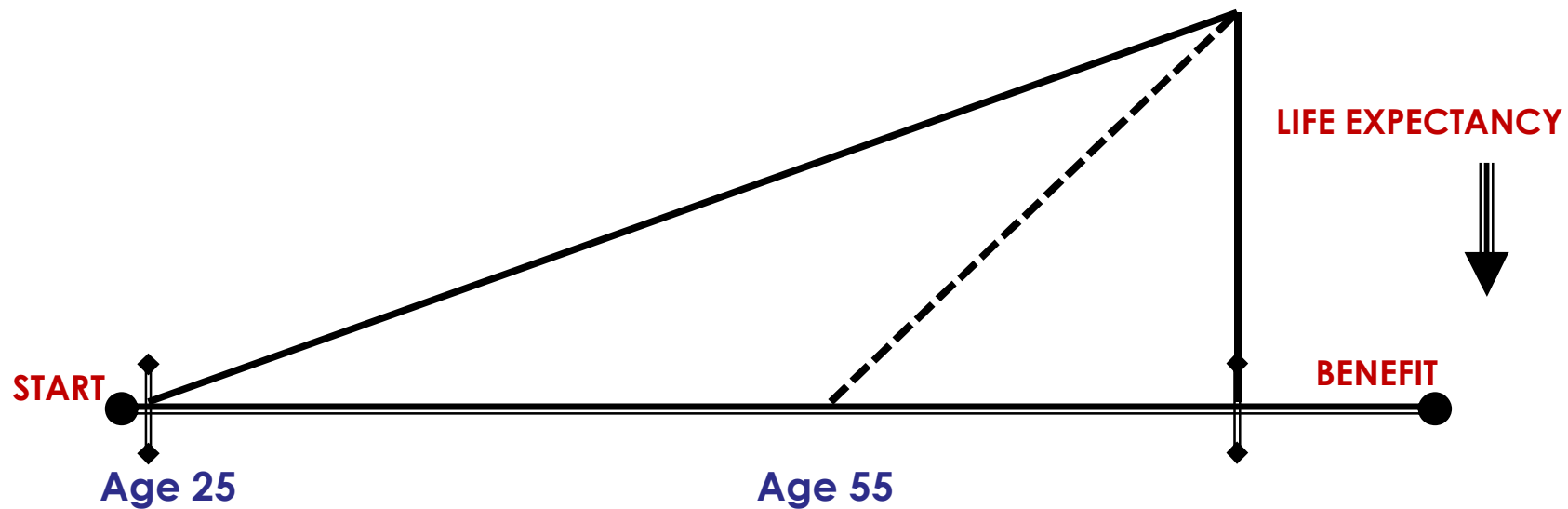
- “ Provides flexibility of annual contribution amounts by providing a minimum and maximum.
- “ Larger deductible contributions (cushion amount)
- “ Allowed contributions to both Defined Benefit and Defined Contribution plans while deducting contributions to both plans.
- “ Validated the Cash Balance Plan
- “ Introduced the inherited IRA

2015 Dollar Limits

Annual Limits for Qualified Plans

401(k), 403(b) maximum salary deferral	\$ 18,000
Over 50 Catch-up	\$ 6,000
Defined Contribution Plan – maximum annual contribution	\$ 53,000
Maximum compensation	\$265,000
Defined Benefit Plan – maximum annual benefit	\$210,000
Highly Compensated Employee's Prior Year Compensation	\$120,000

The Defined Benefit Plan Basics



RETIREMENT AGE 65



(Required Retirement Accumulation)

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Defined Benefit Plans – Sample Contributions

Annual Contribution Examples Using Different Funding Methods

Current Age	Profit Sharing	Defined Benefit Level Funding	Defined Benefit Maximum Funding*	Defined Benefit Minimum Funding
35	\$53,000	\$ 46,841	\$ 64,587	\$19,093
40	\$53,000	\$66,029	\$99,153	\$32,977
45	\$53,000	\$97,241	\$169,876	\$55,070
50	\$53,000	\$154,441	\$222,953	\$44,860
55	\$53,000	\$229,183	\$291,148	\$21,101
60	\$53,000	\$236,239	\$342,531	\$39,499

*Assumes that 3 years compensation history is available.

A Good Client Profile

- “ Takes Your advice
- “ Owns a Business and either;
 - Has 5 or fewer employees or
 - Is self employed as primary means of income or
 - Has a 2nd occupation in which client works for himself or
 - Is considered an Independent Contractor
- “ Wants to Reduce Income Tax Burden
- “ Wants to Contribute \$100,000 or more
- “ Expects to be able to make Contributions for 3+ years

**For Larger companies with 25+ employees –
ask these questions...**

- “ Do you already has a 401(k) Plan and want to put away more than \$50,000
- “ “Would you like to increase what you are putting in your 401(k) with little or no additional cost for your employees?”
- “ “If you could do that, how much would you like to contribute?”

Power of Tax Deferral

Annual Contribution – 10 Years (53 year old, retire at 62)	\$100,000
Assumed Income Tax Rate	40%
Assumed Pre-Tax Earnings Rate	7%
Assumed After-Tax Earning Rate	4.2%

LUMP SUM DISTRIBUTION OPTION

	<u>IN PLAN</u>	<u>WITHOUT PLAN</u>
VALUE IN 10 YEARS	\$1,381,645	\$727,083
LESS: 40% TAX	\$ -552,658	\$0
	\$ 828,987	\$727,083

GROWING ASSETS IN PLAN GENERATES 14% MORE AFTER TAX DISTRIBUTION

ANNUAL INCOME OPTION

	<u>IN PLAN</u>	<u>WITHOUT PLAN</u>
INCOME AGES 65 TO 100	\$121,352	\$42,915
LESS: 40% TAX	\$ -48,541	\$0
	\$ 72,811	\$42,915

GROWING ASSETS IN PLAN GENERATES 69.66% MORE AFTER TAX DISTRIBUTION

But What if Income Taxes Go Up After Retirement?

Assume that income tax rates increase to 50% after 10 years.

ANNUAL INCOME OPTION

	<u>IN PLAN</u>	<u>WITHOUT PLAN</u>
INCOME AGES 65 TO 100	\$121,352*	\$38,386
LESS 50% TAX	<u>\$ -60,676</u>	<u>\$0</u>
ANNUAL SPENDABLE INCOME	\$ 60,676	\$38,386

GROWING ASSETS IN PLAN STILL GENERATES **58% MORE** ANNUAL SPENDABLE INCOME TO PARTICIPANT'S AGE 100 OR HIS/HER HEIRS!

*see slide 16

ABC Company – Defined Benefit Pension Plan

For the Plan Year ending December 31, 2014 (estimate)

Rich Owner, Age 53 to retire at 62

(10 years of funding plan to retirement)

Participant <u>Name</u>	Annual <u>Salary</u>	Monthly <u>Benefit</u>	Estimated <u>Accumulation At Retirement</u>	Annual Life <u>Insurance Premium**</u>	Investment <u>Fund Contrib***</u>	Total <u>Plan Contrib*</u>	Life <u>Insurance Death Benefit</u>
Rich Owner	\$265,000	\$17,500	\$2,740,407	\$108,937	\$148,667	\$257,604	\$1,794,391

* Contributions are based on current Group Annuity Reserve (GAR) limits.

** Assumes Pacific Life Insurance Company's Flex XV (Form #P08F15) whole Life product (preferred, non-smoker) annual premium at current non-guaranteed crediting rate of 5.25% (guaranteed rate is 3%). Pacific Life Insurance Company is licensed to issue insurance products in all states except New York. Product availability and features may vary by state. Insurance products and their guarantees, including optional benefits and any fixed subaccount crediting rates, are backed by the financial strength and claims-paying ability of the issuing insurance company. Look to the strength of the life insurance company with regard to such guarantees as these guarantees are not backed by the broker-dealer, insurance agency or their affiliates from which this product is purchased. Neither these entities nor their representatives make any representation or assurance regarding the claims-paying ability of the life insurance company. Pacific Life Insurance Company's Home Office is located in Newport Beach, CA.

Refer to Disclosure Page (Slide #3).

*** Assumes 5% net rate of return.

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ABC Company 401(k) PROFIT SHARING PLAN

Total				6% Profit	Assumed	
Participant	Plan	Ret.	Annual	Sharing	401(k)	Annual
<u>Name</u>	<u>Age</u>	<u>Age</u>	<u>Salary</u>	<u>Contribution</u>	<u>Deferral</u>	<u>Contribution</u>
Rich Owner	53	62	\$265,000	\$15,900	\$24,000	\$39,900

Summary – Compensation & Contributions

Annual Salary	\$265,000
Salary Deferral into 401(k)	<u>\$-24,000</u>
Taxable Income	\$241,000
Total Defined Benefit Plan Contribution 1 st Year	\$257,604
401(k)/Profit Sharing Plan Contribution	<u>\$ 39,600</u>
Qualified Plan Contributions	\$297,204

SAMPLE PENSION FUNDING
Male Age 53 to Retire at 62 – 10 Years
LUMP SUM AT RETIREMENT \$2,740,407*

With Life Insurance	Year	Without Life Insurance
\$257,604	1	\$217,875
\$257,604	2	\$217,875
\$257,604	3	\$217,875
\$257,604	4	\$217,875
\$257,604	5	\$217,875
\$257,604	6	\$217,875
\$217,875**	7	\$217,875
\$217,875	8	\$217,875
\$217,875	9	\$217,875
<u>\$217,875</u>	10	<u>\$217,875</u>
\$2,417,124	TOTALS	\$2,178,750

See Slide 15 for life insurance product assumptions.

*Current maximum available at age 62 ** Product designed for 6 premium payments to carry to age 100, based on current assumptions

**How much does it cost to add Life Insurance
to the Plan?
(Client age 53 to retire at age 62)**

Average contributions with Life Insurance*	\$257,604
Average contribution without Life Insurance	<u>\$217,875</u>
Extra contribution to add Life Insurance	\$ 39,729
Less: Income Tax Savings (assumed 49% rate)	<u>-\$ 19,467</u>
Extra after-tax cost for 6 years To add \$1,794,391 of coverage	\$ 20,262
Total additional cost over 6 years To add \$1,794,391 of coverage	\$121,572

*The Life Insurance policy accrues \$470,747 of cash value in six years

Sample Internal Rates of Return (IRR) of Tax Deductible Life Insurance Contributions

The \$20,262 additional annual after-tax contribution in our hypothetical six year example can produce income and estate tax-free benefits at participant's death

The \$20,262 additional contribution can generate

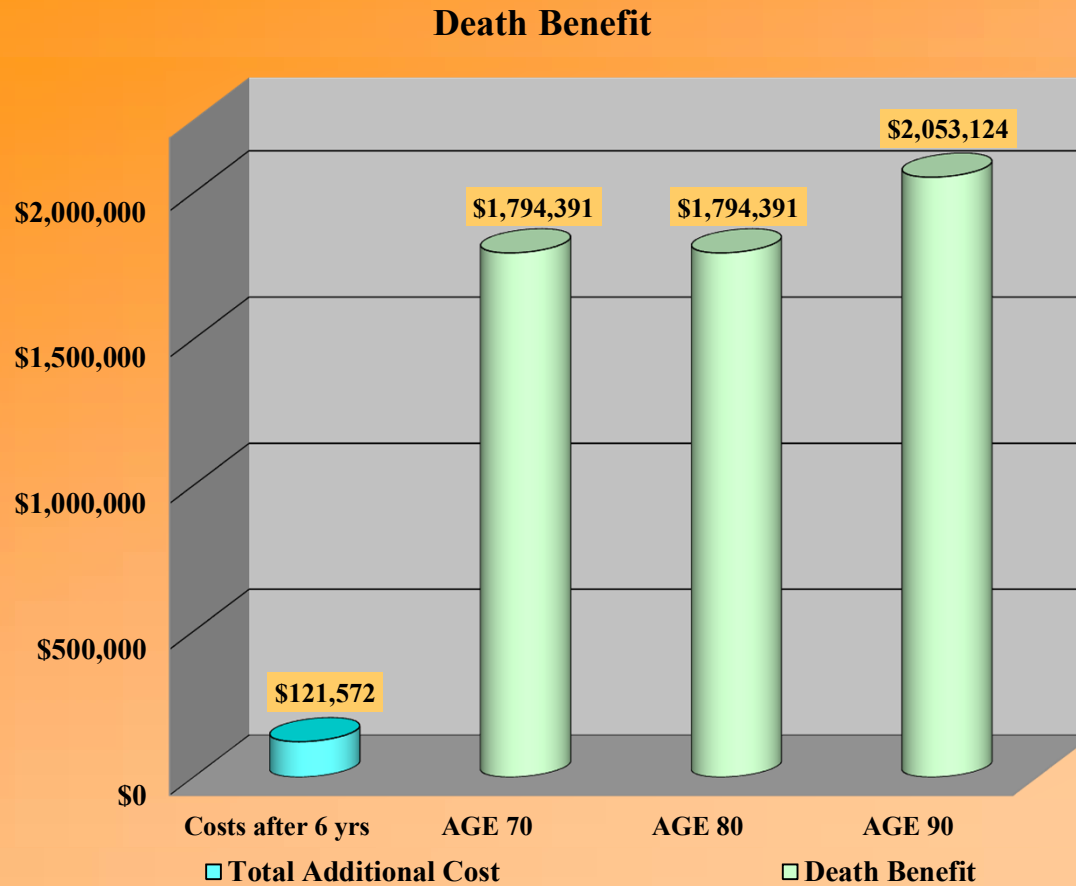
<u>Age at Death</u>	<u>Death Benefit</u>	<u>Required Pre-tax Return*</u>
70	\$1,794,391	36.55%
80	\$1,794,391	21.69%
90	\$2,053,124**	16.20%

*This is the annual, compounded pre-tax return needed to produce the same asset value as the life insurance policy death benefit at the date of death, assuming the total estate is less than \$10.86 million.

**Assumes Whole Life policy is exchanged to PIA4 in year 8 earning as assumed rate of 6%

WEALTH ACCUMULATION

AFTER-TAX BENEFITS TO THE FAMILY AT DEATH



Sample IRR's if Life Insurance is used to Provide Tax Free Distributions (Through Policy Loans: Withdrawals)

- › Pay premiums for 6 years (Flex XV Whole Life)
- › Purchase the policy personally for fair market value
- › Exchange Whole Life policy for Indexed UL Product (in year 8) assuming a hypothetical 6% annually
- › Minimize insurance death benefit as allowed*
- › Take tax-free withdrawals and loans**

The RESULT:

Hypothetical Tax Free Distributions of **\$34,895** annually from age 62 to age 90

The \$20,262 additional contribution for 6 years has to be invested at **25.07% compounded annually**, pre-tax each year from age 53 to 90 to generate the same cash flow stream.

*When they do the Guaranteed exchange, Pacific Life will require a minimum base face amount as well as adhering to the guideline face amount limits on the new PIA4 policy. Distributions shown are hypothetical, not guaranteed, and based on the stated assumptions. Actual results will vary and may be less.

REPOSITION INSURANCE TO SUPPLEMENT RETIREMENT INCOME

Generate a potential tax-free distributions of

\$34,895 per year

From age 62 to age 90 (twenty eight years)

PLUS

A residual tax-free insurance death benefit

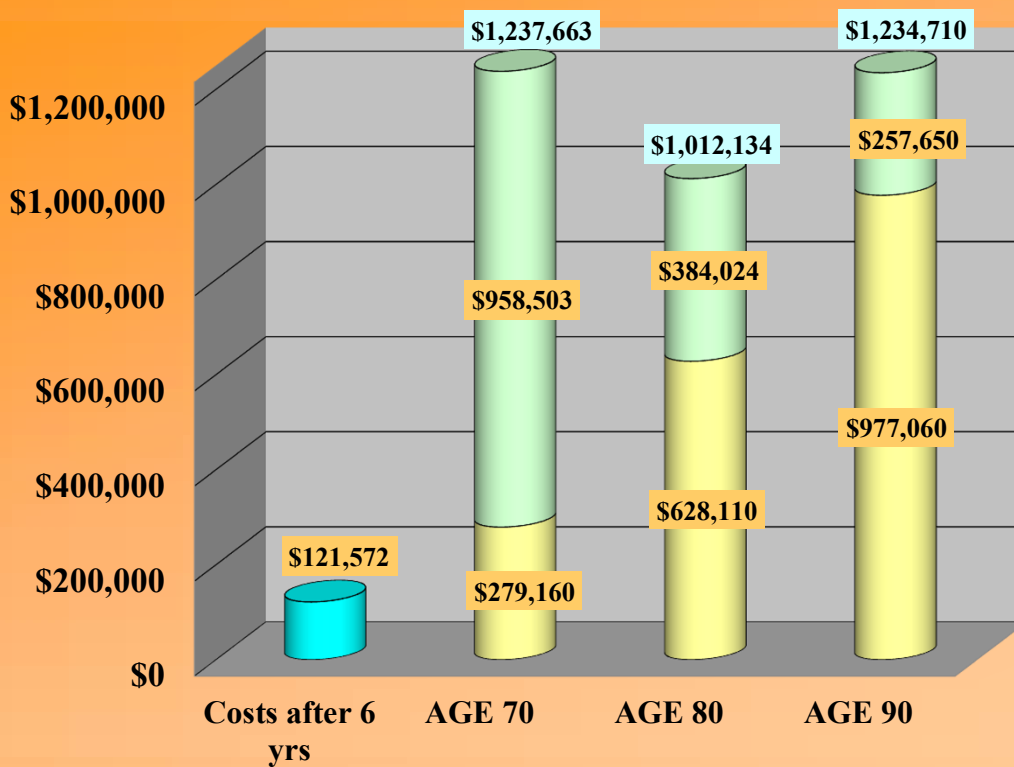
TOTAL AFTER-TAX BENEFITS IF DEATH OCCURS AT AGE...

	<u>TAX-FREE DISTRIBUTIONS</u>	<u>RESIDUAL DEATH BENEFITS</u>	<u>TOTAL AFTER-TAX BENEFITS</u>
AGE 70	\$279,160	\$958,503	\$1,237,663
AGE 80	\$628,110	\$384,024	\$1,012,134
AGE 90	\$977,060	\$257,650	\$1,234,710

WEALTH ACCUMULATION

AFTER-TAX BENEFITS TO THE FAMILY AT DEATH

Tax-free Distributions plus residual Insurance Death Benefit



■ Total Additional Cost
 ■ Distributions Received
 ■ Residual Insurance Death Benefit

Please see Slide 15 for life insurance product assumptions.

Why Should I Include Life Insurance?

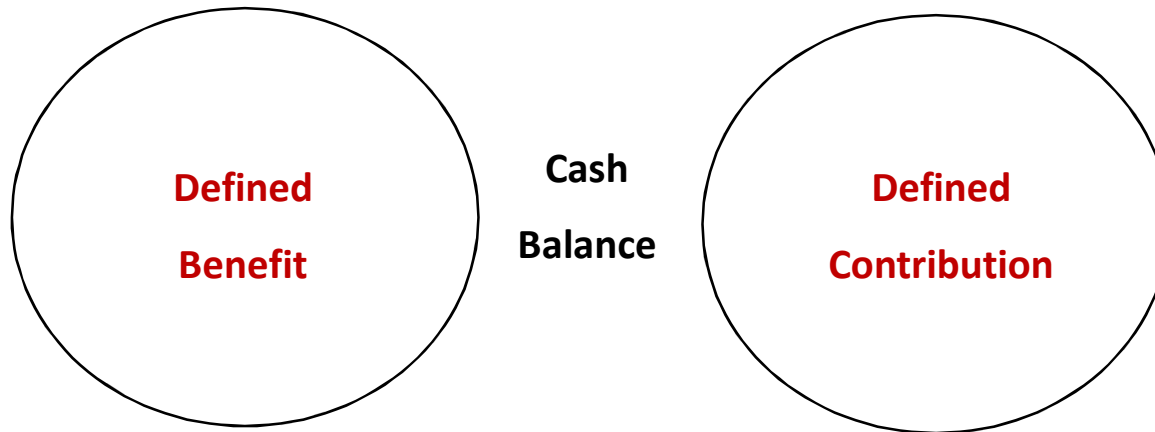
- › Increases the amount of tax-deductible contributions to the plan
- › Helps address the financial impact that a participant's family may suffer in the event of his/her premature death
- › Reposition some taxable pension dollars into tax-free life insurance proceeds
- › Premiums are paid with pre-tax dollars
- › Options at retirement include:
 - › At retirement the policy may be surrendered if coverage is not needed or the face amount may be reduced to effect a policy that continues to a later age
 - › The policy can be transferred out of the plan for its fair market value and re-positioned for tax free distributions* or wealth transfer

LIVE, DIE OR QUIT, life insurance provides valuable benefits to your clients

*See Disclosure Page 3

For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e., the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

Cash Balance Plans “Hybrid” Defined Benefit Plans



Larger Contribution
Guaranteed Benefits
Trustee Managed Funds

Participant Statement
Lump Sum Distributions
Accrued Benefit Equals the
“Hypothetical” Account Balance

Easy to Understand
(example)

We will contribute \$X into your account and credit it with 5% interest annually.

Cash Balance Plans

“Blend” older employees with younger employees

Participant Name	Age	Annual Salary	Traditional Defined Benefit Plus Profit Sharing			Cash Balance Plan Plus Profit Sharing Plan		
			DB Plan	75% PS	Totals	CB Plan	75% PS	Totals
Owner A	55	\$260,000	\$229,183	\$	\$229,183	\$150,000	\$	\$150,000
Owner B	50	\$260,000	\$154,441	\$	\$154,441	\$150,000	\$	\$150,000
Sub-Total			\$383,624		\$383,624	\$300,000		\$300,000
Employee 1	47	\$100,000	\$4,680	\$7,500	\$12,180	\$2,700	\$7,500	\$10,200
Employee 2	48	\$40,000	\$1,932	\$3,000	\$4,932	\$2,700	\$3,000	\$5,700
Employee 3	31	\$30,000	\$856	\$2,250	\$3,106	\$2,700	\$2,250	\$4,950
Employee 4	23	\$25,000	\$472	\$1,875	\$2,347	\$2,700	\$1,875	\$4,575
Employee 5	22	\$25,000	\$446	\$1,875	\$2,321	\$2,700	\$1,875	\$4,575
Sub-Totals			\$8,386		\$24,886	\$13,500		\$30,000
Total			\$392,010	\$16,500	\$408,510	\$313,500	\$16,500	\$330,000

Cash Balance Plans

“Blend” older employees with younger employees

Participant Name	Current Age	Annual Salary	Traditional Defined Benefit	% of Total	Cash Balance	% of Total
Owner A	55	\$250,000	\$217,496	51.2%	\$135,600	46.8%
Owner B	50	\$250,000	<u>\$146,566</u>	<u>34.5%</u>	<u>\$135,600</u>	<u>46.8%</u>
Sub-Total			\$364,062	85.7%	\$271,200	93.6%
Employee 1	47	\$100,000	\$35,445		\$ 3,700	
Employee 2	48	\$ 40,000	\$14,630		\$ 3,700	
Employee 3	31	\$ 30,000	\$ 5,172		\$ 3,700	
Employee 4	23	\$ 25,000	\$ 2,686		\$ 3,700	
Employee 5	22	\$ 25,000	<u>\$ 2,538</u>		<u>\$ 3,700</u>	
Total			\$424,533		\$289,700	

Cash Balance Plan Plus 401(k)/ Profit Sharing “COMBO” Plans

Participant Name	Cash Balance	Employee Deferral	6% Profit Sharing	Total
Owner A	\$135,600	\$22,500	\$15,000	\$173,100
Owner B	<u>\$135,600</u>	<u>\$22,500</u>	<u>\$15,000</u>	<u>\$173,100</u>
Sub-Total	\$271,200	\$45,000	\$30,000	\$346,200
Employee 1	\$ 3,700	?	\$6,000	\$ 9,700
Employee 2	\$ 3,700	?	\$2,400	\$ 6,100
Employee 3	\$ 3,700	?	\$1,800	\$ 5,500
Employee 4	\$ 3,700	?	\$1,500	\$ 5,200
Employee 5	<u>\$ 3,700</u>	<u>?</u>	<u>\$1,500</u>	<u>\$ 5,200</u>
Total	\$289,700	\$45,000	\$43,200	\$377,900

THE (i) SOLUTION

CROSS – TESTED PLANS
AKA “COMBO PLANS”

Deduction Limits

**PRIOR TO
PPA 2006**

- ' **DB contributions always deductible**
- ' **DC contributions only deductible if;**
Total contributions to all plans are
Less than or equal to 25% of eligible payroll

**AFTER
PPA 2006**

- ' **DB contributions always deductible**
- ' **DC contributions deductible within limits**
(PBGC or no PBGC)

Deduction Limits (Continued)

IF EXEMPT
FROM PBGC

' Total deductions to all plans are limited to 31% of eligible payroll

OR

' If total contributions exceed 31%, the DC portion may not be greater than 6% of pay

IF SUBJECT
TO PBGC

' No deduction limit

' You may make maximum contributions to both plans

Pension Benefit Guaranty Corp (PBGC)

Government-based organization that insures, within limits, pension benefits promised by employers through Defined Benefit Plans...



Requires Annual Filings

Annual Premiums per Participant

All employees covered except two exceptions: Professional Organizations (Lawyers, Doctors, Architects, etc.) where total Number of Participants Never Exceeds 25 & Owner-Only Businesses (Husband and/or Wife)

Basics of Cross Testing

Owner, Age 53

Employee, Age 30

\$260,000 Salary

\$30,000 Salary

Owner receives Maximum pension of

\$210,000 beginning
at age 62

Pension equals
80% of pay

Annual pension
contribution = \$256,643

Employee received Profit Sharing contribution of \$3,000 per YEAR

This projects to accumulation
of \$444,941 at age 62

The accumulation provides annual
pension of \$35,595 = 118% of pay

RESULTS

\$256,643 Contribution for Owner ● **\$3,000 Contribution for Employee**

THIS PASSES DISCRIMINATION BECAUSE: Employee receives 118% of Pay; Owner receives 80% of Pay

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Case Study #1: Dr. Jones Professional Organization (PBGC Exempt)

CLIENT

Doctor Jones age 53 and Spouse age 52, both active in the business. & Has existing Profit Sharing Plan in which he maximizes contributions of \$51,000.

GOAL

Wants to increase overall deductions while minimizing funding costs for employees.

Dr. Jones Professional Organization

Company Name : Dr. Jones Medical Practice
First Plan Year End : 12/31/2014
Normal Retirement Age : 62
Income Tax Rate : 40.0%

Sex	Name	Age	Annual Salary
M	Doctor Jones	53	\$260,000
F	Mrs. Jones	52	\$25,000
F	Employee 1	28	\$57,446
F	Employee 2	41	\$47,262
F	Employee 3	48	\$65,495
F	Employee 4	31	\$83,655
F	Employee 5	28	\$37,891
F	Employee 6	43	\$34,453
F	Employee 7	24	\$17,120

Defined Benefit Pension Plan

STAND ALONE DEFINED BENEFIT PLAN

Participant Name	Plan Age	Annual Salary	Plan Contribution	% of Total
Dr. Jones	53	\$260,000	\$256,643	71.0%
Mrs. Jones	52	<u>\$25,000</u>	<u>\$11,644</u>	<u>3.2%</u>
Sub-Total:		\$285,000	\$268,287	74.2%
Employee 1	28	\$57,446	\$9,742	
Employee 2	41	\$47,262	\$16,432	
Employee 3	48	\$65,495	\$28,266	
Employee 4	31	\$83,655	\$17,017	
Employee 5	28	\$37,891	\$6,426	
Employee 6	43	\$34,453	\$12,736	
Employee 7	24	<u>\$17,120</u>	<u>\$2,299</u>	
TOTALS		\$618,322	\$361,205	100%

Defined Benefit Pension Plan with 401(k) Profit Sharing Plan – Cross Tested Design

Dr. Jones Professional Organization

THE (i) SOLUTION – DEFINED BENEFIT PLAN

PARTICIPANT NAME	PLAN AGE	RET AGE	ANNUAL SALARY*	TOTAL CONTRIBUTION	% OF TOTAL
Dr. Jones	53	62	\$260,000	\$256,643	94.2%
Mrs. Jones	52	62	\$25,000	\$2,280	0.8%
				\$258,923	95.0%
Employee 1	28	62	\$57,446	\$1,238	
Employee 2	41	62	\$47,262	\$2,067	
Employee 3	48	62	\$65,495	\$4,904	
Employee 4	31	62	\$83,655	\$2,115	
Employee 5	28	62	\$37,891	\$816	
Employee 6	43	62	\$34,453	\$2,006	
Employee 7	24	62	\$17,120	\$299	
Sub-total				\$13,445	
TOTALS			\$628,322	\$272,368	100%

401(k) PROFIT SHARING PLAN – CROSS TESTED

COMPANION PROFIT SHARING CONTRIBUTION	ASSUMED 401(K) DEFERRAL	TOTAL PROFIT SHARING CONTRIBUTION
\$3,500	\$23,000	\$26,500
\$7,800	\$3,200	\$11,000
\$11,300	\$26,200	\$37,500
\$4,308	?	\$4,308
\$3,545	?	\$3,545
\$4,925	?	\$4,925
\$6,291	?	\$6,291
\$2,849	?	\$2,849
\$2,591	?	\$2,591
\$1,287	?	\$1,287
\$25,797		\$25,797
\$37,097	\$26,200	\$63,297

CUMULATIVE RESULTS

GRAND TOTAL CONTRIBUTIONS	% OF GRANDTOTAL
\$283,143	84.4%
\$13,280	4.0%
\$296,423	88.4%
\$5,546	
\$5,612	
\$9,829	
\$8,406	
\$3,665	
\$4,597	
\$1,516	
\$39,242	
\$335,665	100%

Total Eligible Compensation is \$628,322. Profit Sharing Contribution May Not Exceed \$37,699 (i.e. 6%).

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Case Study #2: ABC Company - Organization (Subject to PBGC)

CLIENT

Richard, Owner of ABC Company, age 53 and Spouse age 52, both active in the business. & Has existing Profit Sharing Plan in which he maximizes contributions of \$51,000.

GOAL

Wants to increase overall deductions while minimizing funding costs for employees.

Defined Benefit Pension Plan with 401(k) Profit Sharing Plan – Cross Tested Design

ABC Company – Subject to PBGC

THE (i) SOLUTION – DEFINED BENEFIT PLAN

PARTICIPANT NAME	PLAN AGE	RET AGE	ANNUAL SALARY	TOTAL CONTRIBUTION	% OF TOTAL
Richard Owner	53	62	\$260,000	\$256,643	94.2%
Jane Spouse	52	62	\$25,000	\$2,280	0.8%
				\$258,923	95.0%
Employee 1	28	62	\$57,446	\$1,238	
Employee 2	41	62	\$47,262	\$2,067	
Employee 3	48	62	\$65,495	\$4,904	
Employee 4	31	62	\$83,655	\$2,115	
Employee 5	28	62	\$37,891	\$861	
Employee 6	43	62	\$34,453	\$2,006	
Employee 7	24	62	\$17,120	\$299	
Sub-total				\$13,445	
TOTALS			\$628,322	\$272,368	100%

401(k) PROFIT SHARING PLAN – CROSS TESTED

COMPANION PROFIT SHARING CONTRIBUTION	ASSUMED 401(K) DEFERRAL	TOTAL PROFIT SHARING CONTRIBUTION
\$34,500	\$23,000	\$57,500
\$12,900	\$0	\$12,900
\$47,400	\$23,000	\$70,400
\$4,308	?	\$4,308
\$3,545	?	\$3,545
\$6,392	?	\$6,392
\$8,165	?	\$8,165
\$3,698	?	\$3,698
\$3,363	?	\$3,363
\$1,671	?	\$1,671
\$31,142		\$31,142
\$77,542	\$23,000	\$101,542

CUMULATIVE RESULTS

GRAND TOTAL CONTRIBUTIONS	% OF GRAND TOTAL
\$314,143	84.0%
\$15,180	4.1%
\$329,323	88.1%
5,546	
\$5,612	
\$11,296	
\$10,280	
\$4,515	
\$5,369	
\$1,970	
\$44,587	
\$373,910	100%

Case Study #3: Combo Plan Approach

**CARVE-OUT DESIGN
(Subject to PBGC)**

Carve-Out Designs Two Basic Rules

RULE #1

- › Rule #1 determines how many employees must be covered; Defined benefit plan must cover the lesser of 40% of otherwise eligible employees, OR 50 employees.

RULE #2

- › Rule #2 determines the Mix of Highly Compensated (HCE) and non-Highly Compensated Employees (NHCE Plans Must Cover 70% of the Percentage of HCEs Benefiting in the Plans

NOTE: Plan Design Must Meet Both Rules to Pass Testing

Highly Compensated Employees

- › Employees with 5% or Greater Ownership
- › HCE's include Spouses, Children, Grandchildren, Parents & Grandparents
- › Employees Who Earned MORE than \$110,000 the Previous Year

Defined Benefit Pension Plan with 401(k) Profit Sharing Plan – Cross Tested Design

ABC Company – Carve Out Design (Subject to PBGC)

THE (i) SOLUTION – DEFINED BENEFIT PLAN

401(k) PROFIT SHARING PLAN – CROSS TESTED

CUMULATIVE RESULTS

PARTICIPANT NAME	PLAN AGE	RET AGE	ANNUAL SALARY	TOTAL CONTRIBUTION	% OF TOTAL	COMPANION PROFIT SHARING CONTRIBUTION	3% TOP HEAVY PLAN#2	ASSUMED 401(K) DEFERRAL	TOTAL P/S CONTRIB	GRAND TOTAL CONTRIBUTIONS	% OF GRAND TOTAL
Richard Owner	53	62	\$260,000	\$256,643	98.8%	\$34,500	-	\$23,000	\$57,500	\$314,143	94.0%
Jane Spouse	52	62	\$25,000	Exclude		\$0	-	?			
Sub Totals				\$256,643	98.8%	\$34,500		\$23,000	\$57,500	\$314,143	94.0%
Employee 1	28	62	\$57,446	Exclude			\$1,723	?	\$1,723	\$1,723	
Employee 2	41	62	\$47,262	Exclude			\$1,418	?	\$1,418	\$1,418	
Employee 3	48	62	\$65,495	Exclude			\$1,965	?	\$1,965	\$1,965	
Employee 4	31	62	\$83,655	Exclude			\$2,510	?	\$2,510	\$2,510	
Employee 5	28	62	\$37,891	\$816		\$3,941		?	\$3,941	\$4,757	
Employee 6	43	62	\$34,453	\$2,006		\$3,583		?	\$3,583	\$5,589	
Employee 7	24	62	\$17,120	\$299		\$1,780		?	\$1,780	\$2,080	
Sub-total				\$ 3,121		\$9,304	\$7,616		\$16,920	\$20,041	
TOTALS			\$628,322	\$259,764	100%	\$43,804	\$7,616	\$23,000	\$74,420	\$334,184	100%

Defined Benefit Pension Plan with 401(k) Profit Sharing Plan – Cross Tested Design

SUMMARY OF RESULTS								
	<u>STAND ALONE DB</u>		<u>STUDY #1</u>		<u>STUDY #2</u>		<u>STUDY #3</u>	
PARTICIPANT NAME	STAND ALONE DEFINED BENEFIT	% OF TOTAL	PROF ORG PBGC EXEMPT X-TEST	% OF TOTAL	ABC COMP PBGC REQ X-TEST	% OF TOTAL	ABC COMP CARVE OUT X-TEST	% OF TOTAL
OWNER	\$256,643	71.0%	\$283,143	84.4%	\$313,143	84.0%	\$313,143	94.0%
SPOUSE	\$11,644	3.2%	\$13,280	4.0%	\$15,180	4.0%	_____	_____
Sub Total	\$268,287	74.2%	\$296,423	88.4%	\$328,323	88.4%	\$313,043	94.0%
EE 1	\$9,742		\$5,546		\$5,546		\$1,723	
EE 2	\$16,432		\$5,612		\$5,612		\$1,418	
EE 3	\$28,266		\$9,829		\$11,296		\$1,965	
EE 4	\$17,017		\$8,406		\$10,280		\$2,510	
EE 5	\$6,426		\$3,665		\$4,515		\$4,757	
EE 6	\$12,736		\$4,597		\$5,369		\$5,589	
EE 7	\$2,299		\$1,516		\$1,970		\$2,080	
Sub Total	\$92,918		\$39,171		\$44,587		\$20,041	
TOTALS	\$361,205	100%	\$335,594	100%	\$372,910	100%	\$334,184	100%

ABC Company Comparison of Plan Designs

<u>Participant: Richard, Owner/Jane, Spouse</u>	<u>ESTIMATED OLD DESIGN</u>	<u>PROPOSED NEW DESIGN</u>
	\$51,000	
	<u>\$8,800</u>	
Sub-Total	\$59,800	\$314,143
Employee 1	\$2,872	\$1,723
Employee 2	\$2,363	\$1,418
Employee 3	\$3,257	\$1,965
Employee 4	\$4,183	\$2,510
Employee 5	\$1,895	\$4,757
Employee 6	\$1,723	\$5,589
Employee 7	<u>\$856</u>	<u>\$2,080</u>
Sub-Total	\$17,167	\$20,041
Grand Totals	\$76,967	\$334,184

Increase in contributions for Mr. Owner & Spouse	\$254,343
Increase in total contributions	\$257,217
% of increase for Mr. Owner and Spouse	98.9%

Where Do Cross-Tested Plans Work Best?

- ;
 - ;
 - ;
 - ;
- Owners Want More Than a \$50,000 Personal Allocation**
- Owners May Already Be Funding Maximum Benefits in a 401(k)/ Profit Sharing Plan And Want More**
- Owners And Key Employees Are 10 or More Years Older Than At Least Half of the Employees**

ASK YOUR PROSPECT

“Would you like to substantially increase your retirement savings at little or no extra cost for your employees?”

Retirement Plan Options

- **Defined Benefit Plans**
- **401(k) Plans/Safe Harbor**
- **Cash Balance Plans**
- **412(e)(3) Plans**
- **Floor Offset Plans**
- **Carve Out Plans**
- **New Comparability Plans**
- **Cross-Tested Plans**
- **Combo Plans**

What Does ConfidentVision Provide For You?

- “ Provides customized plan design unique to each client
- “ Provides teleconference sales support to you, your client and/or their advisor(s) as needed
- “ Provides signature ready plan documentation for filing for a determination letter
- “ Provides signature ready form 5500 and supporting schedules for filing with the IRS as well as Participant Statements and Summary Annual Reports
- “ Provides a single source contact to assist you during the implementation process
- “ Provides technical support to plan sponsor, clients, CPA's, attorneys & advisors