

# Profit Sharing Plans

## A "Next Level" Retirement Plan

### "Next Level" Profit Sharing

A profit sharing plan is often the plan of choice for many small-business owners and professional practices because the contributions are made with complete discretion. These tax-deductible contributions may be reduced or suspended in any given year that the employer chooses. The 2006 tax act extended some favorable tax laws that have made these plans better than ever. We can show you how to harness these new rules and take your plan to the "Next Level."

Each year, the sponsoring employer may decide to allocate up to 25 percent of the "eligible payroll" into the plan. Eligible payroll is the total of the allowable wages of the participants who are eligible to receive a contribution that year.

### Three "Next Level" Tools

A retirement plan can't discriminate in favor of "highly compensated employees" in either contributions or benefits. This, however, does not mean that everybody has to receive the same contribution . . . far from it.

When designing a "Next Level" profit sharing plan, we offer three tools that can be used to craft the plan that best meets your goals and budget. These include:

1. "Integration" with Social Security
2. "Age-Weighting" the Contribution
3. "Super Comparability" Plans

### Integration

All employers already sponsor at least one retirement plan, jointly funded by you and your employees. It's called the Old Age & Survivor Benefit of Social Security. Government rules let you take this into account by allowing you to "integrate" your qualified retirement plan with your Social Security contributions. Using integration often helps offset some of the employee cost.

SAI has flexibility in designing a properly integrated plan for you. We can begin integrating a plan as low as 20% of the taxable wage base, so that if your salary is not above the wage base, you can still benefit from its use. This plan design is useful when the owner is the same age as, or younger, than the employees, but earns a higher salary. Better yet, integration is "pre-approved" for use in our prototype documents, so it costs nothing to add it to your plan.

### Age-Weighting

Contributions can't discriminate in either contributions or benefits. Therefore, giving everybody 20% of pay is clearly nondiscriminatory. However, giving each the same theoretical retirement benefit is also nondiscriminatory. The reasoning is simple: with fewer years until retirement, older participants require larger contributions than younger participants to get to the same benefit level.

A review of the design chart shows that this plan is very favorable to the owner. However, in operation, it is a little cumbersome. Older employees get higher contributions, period. Employees in the same job, getting similar wages, will get very different contributions unless they are the same age. For these reasons, this plan is less popular than our next option.

	Age	Salary	Traditional		Integrated		Age - Weighted		Super Comp.	
			Employer Cont.	% of Pay	Employer Cont.	% of Pay	Employer Cont.	% of Pay	Employer Cont.	% of Pay
<b>Owner (P)</b>	<b>55</b>	<b>225,000</b>	<b>\$45,000</b>	<b>20%</b>	<b>\$45,000</b>	<b>20%</b>	<b>\$45,000</b>	<b>20%</b>	<b>\$45,000</b>	<b>20%</b>
<b>Key (P)</b>	<b>40</b>	<b>100,000</b>	<b>20,000</b>	<b>20%</b>	<b>18,806</b>	<b>19%</b>	<b>6,224</b>	<b>6%</b>	<b>10,000</b>	<b>10%</b>
Employee 1	30	40,000	8,000	20%	6,662	17%	1,200	3%	2,000	5%
Employee 2	45	35,000	7,000	20%	5,829	17%	2,783	8%	1,750	5%
Employee 3	25	25,000	5,000	20%	4,164	17%	750	3%	1,250	5%
<b>Totals</b>			<b>\$85,000</b>		<b>\$80,461</b>		<b>\$55,957</b>		<b>\$60,000</b>	
<b>% to Preferred Participants (P)</b>				<b>76%</b>		<b>79%</b>		<b>91%</b>		<b>92%</b>

## “Next Level” Profit Sharing Plans

### Super Comparability

Perhaps the most exciting development in pension plans, this “Next Level” design offers a method to allocate significantly greater contributions to specific classes of employees. It combines both the integration and age-weighted rules, but uses *weighted averages* to determine the contribution.

This technique works best whenever the highly compensated employees are at least 10 years older than the average rank-and-file employee. However, it might not benefit the owner if he or she is the same age or younger than the average employee’s age.

Super Comparability is highly customizable and can be matched to your firm or business quite easily. For example, groups can be created for different profit centers, subsidiaries, sister companies or, most commonly, by job class—in short, any clearly identifiable group.

Common Class Definitions		
1. Owners	1. Sr. Partners	1. Sr. Executives
2. All Other Employees	2. Jr. Partners	2. Managers
	3. All Other Employees	3. Employees of Subsidiary A
		4. Employees of Subsidiary B

Because the plan is custom-tailored to meet your specific objectives, it is initially more costly to set up. This plan is not available in prototype form and must be individually designed. SAI has a “volume submitter” plan document that is cost effective and makes it easy for you to secure a favorable opinion from the IRS for its use.

### Investment Options

Plan contributions are placed into a tax-qualified trust. Allowable investment options are selected by the Plan Trustees. Each eligible participant may be given the ability to direct the investment of their own account by selecting from among the allowable options.

Our profit sharing program allows substantial freedom. Plan investments may include mutual funds, annuity contracts, guaranteed interest contracts and other qualified assets.

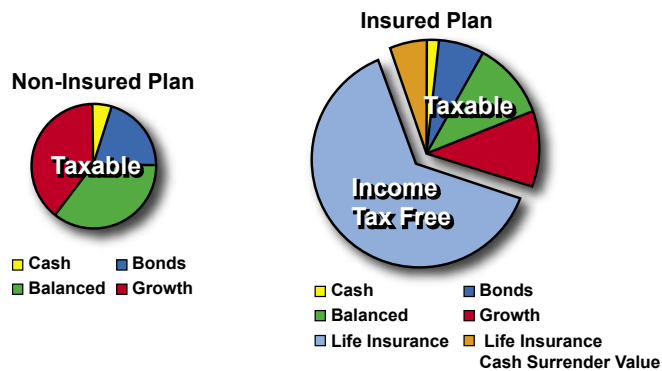
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### Enhanced Survivor Benefits



Unlike most profit sharing plans offered through a mutual fund company, our program automatically includes a special optional benefit that will allow participants to purchase cash value life insurance to protect their family should the participants not live to retirement. It may be a wise part of your asset allocation strategy.

When life insurance is purchased inside the Plan, the death benefit in excess of the cash surrender value will be paid to the participant’s named beneficiary free of ordinary income tax. Each year while the policy is in the plan, the participant pays income tax on the cost of the life insurance protection. When the participant separates from service or retires, the life insurance policy must be removed from the plan. There are several options available to participants, each with its own advantages and tax consequences.

### Plan Administration

Before you can make profit sharing contributions, you must first establish the Plan and Trust. You must adopt the plan by the last day of your tax or fiscal year (e.g., 12/31 if you have a calendar year business). Each year, your plan will typically need a formal valuation and reporting using the IRS form 5500 series. The 2006 tax act also mandates that participants receive periodic statements.

SAI can provide everything you need for a competitive price. Administrative fees are generally deductible to your business.

**Let Us Know How We Can Help You**