

# The Micro(k)<sup>®</sup>

## A "Next Level" Retirement Plan

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The Pension Protection Act of 2006 extended an unparalleled opportunity for businesses that only employ owners and their spouses to save significant sums in a tax-favored retirement plan. Conventional wisdom of the past few decades was to use a Simplified Employee Pension (SEP). Now you have another choice that may be far better: a Micro(k).

A SEP allows you to contribute up to 25% of your eligible salary to an IRA custodial account, not to exceed \$45,000 in 2007. However, many small-business owners take modest salary draws or do effective tax planning to minimize earned income. Thus, it is often very difficult for these employers to contribute the desired sum.

### A Better Option

Fortunately, you can defer substantial amounts using a 401(k) cash and deferral feature and continue to contribute up to 25% of your pay to a plan until your total contribution reaches 100% of pay, not to exceed \$45,000.

This maximum annual contribution is the aggregate of your pre-tax deferrals and employer matching or other contributions. If you are age 50 or older within the plan year, you may also be allowed "catch-up" deferrals.

The following chart summarizes the maximum deferral and catch-up limits that may be made in any calendar year:

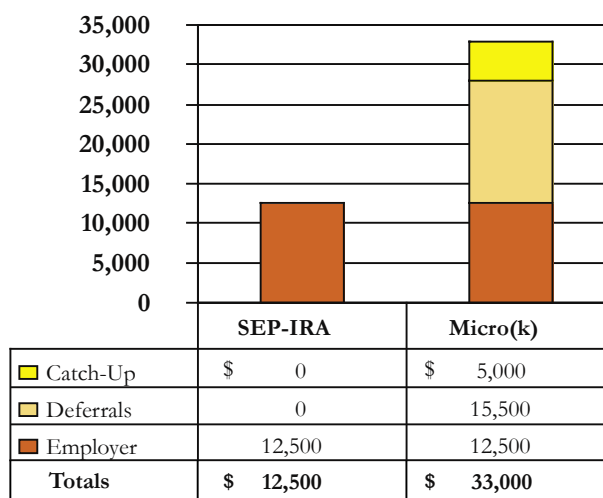
Year	Maximum Deferral	Catch-Up (Age 50 +)
2006	15,000	5,000
2007	15,500	5,000
2008	Indexed	Indexed

Salary deferrals may be either traditional pre-tax or after-tax using a "Qualified Roth Election", or both. Our plans, upon request, can include a Roth option so that you may achieve greater "tax-diversification" at retirement should you so choose.

### Micro(K)<sup>®</sup> Example

*Don is age 50 and has \$50,000 of eligible pay. However, his business is profitable, and he would like to contribute more than his current SEP-IRA retirement plan allows.*

### Micro(k)<sup>®</sup> with \$50,000 Income



*Better yet, all the contributions are made at the complete discretion of Don. He can vary the salary deferral and profit sharing contribution every year.*

### Special Micro(k)<sup>®</sup> Program

Often when you think about 401(k) plans, two things come to mind: 1) complexity and 2) administrative cost. Generally, a 401(k) plan can be complex because the amount that the owner(s) and their spouse(s) may defer is dictated by the participation rate of the rank-and-file employees. However, non-discrimination testing is not required for "single life" plans. Better yet, no annual reporting is required until the Plan Assets reach \$250,000.

The 2006 tax act expanded the definition of a "single life" plan to include Plans where only the owners and spouses are eligible to participate. Owners now include sole proprietors, 2% owners of S corporations, and 5% owners of partnerships, LLPs and LLCs.



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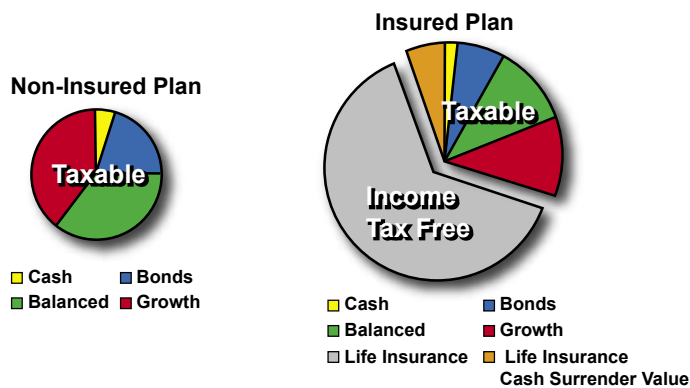
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## Investment Options

Micro(k) contributions are placed into a 401(k) trust. Allowable investment options are selected by the Plan Trustees. Each eligible participant is typically given the ability to direct the investment of their own account by selecting from among the allowable options.

Our Micro(k) program allows substantial freedom. Suitable plan investments include mutual funds, annuity contracts, guaranteed interest contracts or combinations of all of the above.

## Enhanced Survivor Benefits



Unlike most 401(k) plans offered through a mutual fund company, our Micro(k) program automatically includes a special optional benefit that will allow you to purchase cash value life insurance to protect your family should you not live to retirement. It may be a wise part of your asset allocation strategy.

When life insurance is purchased inside your Plan, the death benefit in excess of the cash surrender value will be paid to your beneficiaries free of ordinary income tax. Each year while the policy is in the plan, you will pay income tax on the cost of the life insurance protection. Upon separation from service or retirement, the life insurance policy must be removed from the plan. There are several options available to you at that time; each with its own advantages and tax consequences.

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## Contribution Timing

While the employer contribution must be made by your tax filing date (including extensions), salary deferrals must occur soon after they are deducted from pay. Because you may only defer future salary, you must enter into a salary reduction agreement before the income is paid or accrued. You may only change deferral agreements prospectively.

There are special rules for the election of salary deferral contributions under a newly established plan and potential differences in the timing of salary deferral contributions depending on whether you have W-2 or self-employment income. SAI can assist you with these rules at the time your plan is implemented.

Any additional "employer" contributions you wish to make (up to 25% of pay) can be made in the following year up to the due date for filing your return for the year.

As with a SEP-IRA, your tax advisor will help you calculate the maximum allowable contribution each year. SAI can provide added consultative services to you, as required, on a fee-for-service basis.

## Plan Administration

Before you can make salary deferrals and employer contributions, you must first establish the Plan and Trust. SAI can provide everything you need at a competitive price. 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).

A Micro(k) will require annual reporting when the total plan assets exceed \$250,000. SAI can assist you with completing the IRS form 5500 EZ for an additional fee when required. Please consult SAI's special Micro(k) Fee Schedule for details.

All administrative fees are generally deductible to your business. "Top Heavy" minimum contributions may be required if common-law employees enter the plan and more than 60% of the plan assets attribute to the owners. SAI's regular 401(k) fee schedule would also then apply.

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