

How a Micro(k)[®] Can Give Your Client That Extra Boost



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Have you ever had clients who maxed out their defined benefit or 412(i) contribution, yet wanted to contribute even more? In the past they were able to maintain two plans, but due to cumbersome dual-plan limits, often their contributions weren't any higher than if they went with one plan. Thanks to the Pension Protection Act of 2006, your clients now may add a 401(k) on top of their defined benefit or 412(i) plan, allowing them to further boost their contribution and give them that added savings.

The current combined plan deduction limits under Internal Revenue Code §404(a)(7) allow for your clients to add a defined contribution plan on top of a defined benefit plan as long as the contribution does not exceed 6 percent. The participants may also make salary deferrals up to \$15,500, plus the catch-up deferral of \$5,000 if over age 50.

Exhibit 1			
	Age	Plan Compensation	DB Contribution
James	54	\$225,000	\$169,640
Mariko	52	80,000	59,581
Total			\$229,221

A Plan in Action

Let's take a look at a case involving a husband and wife who own Wolverine Properties, LLC. James Howlett, 54, and his wife Mariko, 52, earn \$625,000 and \$80,000 per year respectively. James is looking to contribute \$300,000 a year into a defined benefit plan for himself and his wife. See *Exhibit 1* for the contributions based on ages and salaries.

Unfortunately we've fallen short of the requested \$300,000 budget that James has requested. By adding life insurance in the defined benefit plan, we'll be able to raise the plan contribution. Let's take a look at how the plan contribution will increase when we add Security Mutual's Unisex Capital UL to the plan. See *Exhibit 2*.

By adding SML's high-early-cash-value Unisex Capital UL to the plan, not only are we able to boost the contribution, but James is covered by a \$2.5 million death benefit and Mariko has coverage of \$900,000. Although the premium is \$58,751, the required contribution increases only \$11,429. Thus, our plan may provide two benefits that are cost efficient.

Even though we've increased the plan contribution, you can see we're still under James' budget of \$300,000. Under the new regulations, we can now place a Micro(k)[®] on top of the defined benefit plan while limiting the profit-sharing portion to the required 6 percent. Recall that a Micro(k)[®] is SAI's competitive 401(k) for businesses that employ only the owners and spouses. No discrimination testing equals lower administration costs.

Exhibit 2					
	Age	Plan Compensation	DB Contribution	DB Contribution w/ Unisex Capital UL	Added Survivor Benefit
James	54	\$225,000	\$169,640	\$179,513	\$2,500,000
Mariko	52	80,000	59,581	61,137	900,000
Total			\$229,221	\$240,650	\$3,400,000

Exhibit 3						
	Compensation	DB Contribution		Micro(k) Deferral	6% Profit Sharing	Total
		Aux. Fund	Life Premium			
James	\$225,000	\$134,613	\$44,900	\$20,500	\$13,500	\$213,513
Mariko	80,000	47,286	13,851	20,500	4,800	86,437
Total		\$181,899	\$58,751	\$41,000	\$18,300	= \$299,950

Both James and Mariko defer the maximum \$15,500 into the Micro(k)[®] as well as the catch-up deferral of \$5,000, giving them each an additional \$20,500 of contributions which is placed on top of the 6 percent in the profit-sharing contribution. *Exhibit 3* shows how the addition of a Micro(k)[®] to the defined benefit plan looks.

By adding the Micro(k)[®] on top of the defined benefit plan, we're able to meet their goal. For a minimal installation and maintenance fee, your clients' retirement savings have increased and you look like you're a miracle worker.

How Much Will It Cost?

A Micro(k)[®] will require a plan document. Although a 401(k) document typically costs \$1,000, our Micro(k)[®] document costs only \$350. When the total plan assets exceed \$250,000—IRS form Series 5500 annual reporting is required. An EZ form may be prepared by the client's CPA, or SAI can help your client prepare this form for an added fee. Consult our special "Micro(k) Owner Only" fee schedule for details. All administrative fees are generally deductible to your clients' business. Unlike many Solo-K providers, SAI allows either a "bundled" or "unbundled" approach to plan funding.

How SML Can Help

For more information on adding a Micro(k)[®] to your clients' existing or new plan, visit www.MicroK.biz—your one-stop resource for all things Micro(k)[®]. Better yet, give us a call at (800) 346-7171.

To get a customized Micro(k)[®] and defined benefit design for you or a client, please complete an SML Fact Finder (0010297) and fax it to us at 607-772-6726. It's on the DESIGN tab of MicroK.biz.



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