

# DASH 401(k) Plans

## A "Next Level" Retirement Plan

### New Opportunities

Recent very favorable tax law changes have greatly expanded and simplified the retirement plan world. Now, despite some administrative cost, a 401(k) plan may compare quite favorably to a low-cost SEP-IRA for a similar employer contribution. That's because the owners may primarily rely on salary deferrals and secondarily add employer matching or profit sharing contributions until a participant reaches 100% of pay, not to exceed \$45,000 (indexed limit for 2007). Those who are age 50 or above may also add "catch-up" contributions, if any legal or plan limitation is reached.

	Deferral	Catch-up	Total Age 50+
2006	15,000	5,000	20,000
2007	15,500	5,000	20,500
2008+	Limits 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 "tax-diversification" at retirement should you so choose.

However, although you may desire to optimize the 401(k) plan by using profit-sharing and "safe harbor" contributions, consideration must be given to the employee benefit cost as well as some basic nondiscrimination issues.

### The Problems

**Top Heavy.** An issue that is very common in the small-business world is the "top heavy" concern. Once 60% or more of the plan assets attribute to the owners, or certain officers, the plan becomes "top heavy." Although having 60% or more of the plan assets is often desired by the owners and other *key employees*, it may necessitate that the employer contribute at least 3% of salary to all the eligible employees, or the smallest percentage contributed for a key employee, if less.

**ADP Test.** Another huge issue for most 401(k) plans is that the amount that "highly compensated" employees (i.e., the owners, their family members and other high income participants) may save is dictated by the savings rate of the other employees. Although the rules are complex, these rules, as a percentage of pay, may be summarized as follows:

Average Deferral Percentage (ADP)	
Non-Highly Compensated	Highly Compensated
0%	0%
1%	2%
2%	4%
3%	5%
4%	6%
6%	8%

### "Next Level" Solutions

When designing a "Next Level" 401(k) plan, we offer three cutting-edge tools that can be used to craft the plan that best meets your goals and budget. These include:

1. Safe Harbor Nonelective
2. The Super 401(k)
3. The DASH 401(k)

The first tool is fully described in our "Safe Harbor" 401(k) companion brochure. This employer contribution must be granted each year and removes the ADP test and solves the "top heavy" concern.

The next two tools are based on the premise that a retirement plan can't discriminate in favor of "highly compensated employees" in either contributions or benefits. As displayed in the exhibit below, this does not mean that everybody has to receive the same contribution . . . far from it.

DASH 401(k) vs SEP-IRA										
Census Data			DASH 401(k) Plan					SEP-IRA		
	Age	Salary	Elective Deferral	Nonelective Safe Harbor	% of Pay	Profit Sharing	% of Pay	Employer Total	Employer Total	% of Pay
<b>Owner (P)</b>	55	<b>\$225,000</b>	<b>\$20,500</b>	<b>\$6,750</b>	<b>3.0%</b>	<b>\$22,750</b>	<b>10.1%</b>	<b>\$50,000</b>	<b>\$45,000</b>	<b>20.0%</b>
Key (P)	40	100,000	10,000	3,000	3.0%	5,000	5.0%	8,000	20,000	20.0%
Staff 1	35	40,000	2,000	1,200	3.0%	600	1.5%	1,800	8,000	20.0%
Staff 2	45	35,000	1,050	1,050	3.0%	525	1.5%	1,575	7,000	20.0%
Staff 3	25	25,000	0	750	3.0%	375	1.5%	1,125	Ineligible	0.0%
<b>Employer Contribution Plan Totals*</b>								<b>\$62,500</b>	<b>\$80,000</b>	
<b>Percent to Preferred (P)</b>								<b>93%</b>	<b>75%</b>	

## Next Level 401(k) Plans

### Super 401(k) Plan

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. A contribution can’t discriminate in either contributions or benefits. 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 Super 401(k) uses this *age-weighted* rule, but uses the weighted average age for members of specific classes to test the employer contribution for nondiscrimination. 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.

This technique is highly customizable and can be matched to your 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 2. Non-owners	1. Sr. Partners 2. Jr. Partners 3. All Others	1. Executives 2. Managers 3. All Others

Generally, the allocation to the top group can’t exceed three times the allocation to the bottom group. However, once you award at least 5% of pay to the bottom group, this ratio limit disappears.

### DASH 401(k) Plans

Perhaps our ultimate “Next Level” tool, as illustrated previously, is the Double Advantage Safe Harbor or “DASH 401(k)” design. This technique grants all eligible employees 3% of pay with immediate vesting and uses this non-elective safe harbor to eliminate the ADP test.

Unlike the matching safe harbor, this nonelective contribution enters our *super comparability* testing algorithm and, along with other profit sharing contributions, may be used to efficiently reach the desired goal and budget whenever the members of the top groups are, on average, ten years older than the members of the bottom one.

It is important to note that the employer is making a 3% of pay commitment with immediate vesting to all eligible employees. Any profit sharing contributions to include super comparability allocations beyond this minimum can be made at the sole discretion of the employer.

This publication is intended for general information purposes or to support the promotion or marketing of the Company’s products and does not constitute legal or tax advice. This publication is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Internal Revenue Code or any other applicable tax law. There are various income, gift and estate tax consequences of utilizing life insurance within a qualified plan. A decision to purchase life insurance within a qualified plan should be made after considering the tax results and your non-tax needs for insurance. Taxpayers are advised to seek tax advice based on the taxpayer’s particular circumstances from an independent tax advisor.

©2007 Security Mutual Life Insurance Company of New York. All rights reserved.

Policy Form Nos: 2085-U, 2080-U, 2080-U-NY, 10-4149, 10-4150.

0011811XX 05/2007

### Investment Options

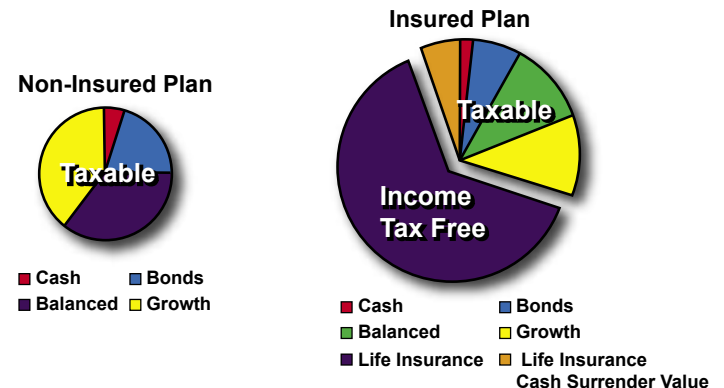
401(k) contributions are placed into a 401(k) trust. Allowable investment options are selected by the Plan Trustees. Each eligible participant is typically given the ability to direct the investment of his or her own account by selecting from among the allowable options.

Our 401(k) program allows substantial freedom. Suitable investments include mutual funds, group annuity contracts, guaranteed interest contracts or combinations of all of the above.

Unlike most 401(k) plans offered through a mutual fund company, our 401(k) program can include 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 must be removed from the Plan. There are several options available to you at that time, each with its own advantages and tax consequences.

### Enhanced Survivor Benefits



### 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 prior to the last day of your tax or fiscal year (e.g., 12/31 if you have a calendar-year business). All administrative fees are generally deductible to your business.

Let Us Know How We Can Help You