

“Change Your Life” with Micro(k)



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With Security Mutual’s Advanced Marketing Seminar now under our belts, it’s time to focus on the upcoming “Pension Season.” We’d like to share one of the highlights of the meeting—a new, exciting qualified plan, the Micro(k)SM.

What Is a Micro(k)?

The Micro(k) is a specialty retirement design new to the retirement planning scene, and it is sure to replace the SEP-IRA as the plan of choice for self-employed professionals and family-owned businesses. There is no discrimination testing in owner-only plans due to the fact that there are no eligible common-law employees participating. It offers greater tax deductions for the owner and the self-employed with amazing flexibility.

Better yet, the cost to set up and manage this SEP-IRA alternative is reasonable. Let’s take a look at what exactly the Micro(k) is.

In a Micro(k), owners can defer substantial sums using a 401(k) cash and deferral feature and a profit sharing feature that allows them to contribute 0–25 percent of their pay to the plan until their contribution reaches 100 percent of pay, not to exceed \$41,000. The \$41,000 maximum annual contribution is the aggregate of their pre-tax deferrals and employer matching and/or other contributions.

A nice feature for participants over age 50 is the “catch-up” deferral, allowing them to make an additional contribution over the \$41,000 limit. The following chart summarizes the maximum salary deferrals.

Year	Maximum Deferral	“Catch-Up” Deferral
2004	\$13,000	\$3,000
2005	14,000	4,000
2006	15,000	5,000

Case Study 1 demonstrates the contribution advantage of a Micro(k) vs. a SEP-IRA for a 52-year-old sales rep. with a \$100,000 W2 wage.

Can I Add Life Insurance?

To put it simply—yes! Life insurance is a permitted investment in all qualified plans, and the Micro(k) falls under that definition. What better way to get life insurance than by paying for it with pre-tax dollars? Using Security Mutual’s Pension Customizer 4+ or our Security Premier UL portfolio, your client can obtain excellent life insurance with a product that is specifically designed for pension plans. Let’s take a look at the different types of plans and how life insurance can be added to each:

In a Micro(k), participants can elect whether or not they will allocate some of their retirement funds to purchase life insurance. Remember that the life premium must be less than 50 percent of the contribution for whole life or less than 25 percent of the contribution for universal life.



www.Micro.biz

(continued)

Case Study 1		
W2 Wages: \$150,000		
	SEP-IRA	Micro(k)
404 Limit	25%	25%
Employer	\$ 25,000	\$ 25,000
Deferral	0	13,000
Catch-Up	0	3,000
Total	\$ 25,000	\$ 41,000

Case Study 2		
	Existing DB	Micro(k)
Contribution	\$ 26,000	\$ 25,250
Annual Admin. Fee	1,500	100 *
Life Insurance	200,000	1,000,000
Required Contribution	Yes	No

*Preferred plan, which uses all SML products.

The participant may also use the “aged money” provisions that allow these basic limits to be surpassed. The “aged money” consists of assets from a prior retirement plan the client may have that are rolled into the new plan. SAI’s prototype plans contain these provisions.

Case Study 2, presented by Rick Wien, demonstrates the conversion of a Defined Benefit plan to a Micro(k) for a 63-year-old screenwriter with a \$37,000 W2 Wage. The client has a wife and two young children and is in need of a \$1 million dollar life insurance policy.

The client is able to use the money from his DB plan and roll it into the Micro(k) as “aged money,” allowing him to purchase the needed life insurance.

What About Discrimination?

For businesses that have no common-law employees (i.e., only the owners and spouses are employed), no non-discrimination testing is required. All owners and family members can easily defer whatever they want (within the permitted rules described earlier). The employer then allocates from 0–25 percent of eligible pay in addition to these elective deferrals.

Because there is no required testing, the administrative cost is far less than with a 401(k) plan that has both owners and common-law employees.

How Much Will It Cost?

A Micro(k), unlike a SEP-IRA, will require a Plan Document and Trust, and when the total plan assets exceed \$100,000, annual reporting. (Your client will be required to file an IRS Form 5500 series annual information return each year.) SAI will be pleased to help your client prepare this form for an added fee. Please consult our special “Owner Only” Fee Schedule for details. All administrative fees are generally deductible to your clients’ business.

Better yet, when your plan is exclusively funded with products offered by Security Mutual Life Insurance Company of New York and/or National Security Life and Annuity Company, we can pass further cost savings on to you, once your plan requires administrative assistance from SAI. As a subsidiary of Security Mutual, SAI can readily access plan valuation data from SML and its variable insurance company subsidiary, National Security Life and Annuity Company.

How SML Can Help

For more information on Micro(k), visit www.Microk.biz. We feature a full download section where you can find all of SML’s information regarding the Micro(k).

For more information on the Micro(k) website, please read Jeff Clark’s and Dane Mitchell’s article, “‘Change Your Life’ with MicroK.biz” featured in our May/June 2004 edition of *marketing update*.

Call 800-346-7171 if you’d like to speak to one of us or if you’d like to see a Micro(k) plan design. Please complete an SML Fact Finder (MK-10297) and fax it to us at 607-772-6726.

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