

# Sales Manual

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From  
American  
National  
Insurance  
Company

Plan Design,  
Services,  
& Sales Ideas

New Dimensions In Pensions

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## **SMALL BUSINESS RETIREMENT PLANNING** AMERICAN NATIONAL INSURANCE COMPANY

**Our goal is to help you market small business retirement plans and to keep the process SIMPLE for both you and the client. The new tax law (EGTRRA and PPA 2006) contained more than 60 provisions designed to encourage the establishment of pension and profit sharing plans in the small business. There has NEVER been a better time to be in this market. Let us help you capitalize on the renewed interest by prospects and their advisors as they become aware of the advantages contained in the new law.**

We specialize in the:

**PLAN DESIGN,  
ADMINISTRATION,  
and  
FUNDING**

of small business pension and profit sharing plans. We have the plan documents for any qualified plan allowed by law. We complete all administrative forms so they are "signature ready" for the client. We provide a complete, simple, and competitive pension package.

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**ARTICLE FROM NATIONAL UNDERWRITER  
OCTOBER 15, 2001 EDITION  
(UPDATED WITH 2007 FIGURES)**

**Big Opportunities in Small Business Retirement Plans**  
J. Truitt Smith, CPC, CLU, ChFC, QPA, CEBS, QKA

A first year commission of \$100,000 or more is very possible in a small business with one owner and no employees. This fact alone should make a producer want to know more about the small business retirement plan marketplace.

There has never been a better time to be in this market. One of the major goals of the new tax legislation just passed in June of 2001 (EGTRRA) was to encourage the establishment of small business retirement plans. The enhancements in the new legislation make the qualified plan much more appealing to the small business owner and employees.

In the small business marketplace, its no secret the appeal of the retirement plan is directly related to the benefits provided to the owner. The tools are now present to benefit the owner to a large degree yet still create a meaningful plan for the employees. In the past, restrictions on owner's benefits in small plan design resulted, much too often, in no plan at all for the employees. The new legislation combined with two already existing and very appealing small plan designs now create tremendous opportunities in this marketplace.

One existing design that works well in many small businesses is the New Comparability Profit Sharing Plan. The goal of this plan is two-fold. One **goal is to give the owner the largest possible share of the plan contribution**. The other goal is to add flexibility to the plan to benefit different groups of employees to varying degrees. This flexibility has never been present in any type of plan in the past. Combine this design flexibility with the contribution flexibility inherent in a profit sharing plan and you create an appealing plan for the owner that also receives the nod of approval from the firm's CPA.

The accompanying chart compares the allocations of a traditional profit sharing design to a New Comparability approach with identical contributions from the business. It's easy to create interest in the mind of the owner with allocations like this.

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**TRADITIONAL PROFIT SHARING vs. NEW COMPARABILITY PROFIT SHARING**

	<u>Age</u>	<u>Salary</u>	<u>Traditional Profit Sharing Allocation</u>	<u>% of Salary</u>	<u>New Comparability Profit Sharing Allocation</u>	<u>% of Salary</u>
<b>OWNER</b>	60	\$180,000	\$27,000	15%	\$45,000	25%
<b>Employee</b>	33	39,000	5,850	15%	1,950	5%
<b>Employee</b>	34	45,000	6,750	15%	2,250	5%
<b>Employee</b>	54	37,000	5,550	15%	1,850	5%
<b>Employee</b>	42	30,000	4,500	15%	1,500	5%
<b>Employee</b>	43	29,000	4,350	15%	1,450	5%
		<u>\$360,000</u>	<u>\$54,000</u>		<u>\$54,000</u>	
<b>OWNER'S SHARE</b>				<b>50%</b>		<b>83%</b>

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In 2002, the new tax law raises the dollar limit from \$35,000 to \$40,000 and raises the percentage limit for an employee from 25% of salary to 100% of salary! The employer profit sharing deduction is also raised from 15% of total salaries to 25%. This creates many possibilities for a combination of the New Comparability approach with a “safe harbor” 401(k) allowing numerous variations to produce great results for the owner. The limit on 401(k) elective deferrals for an owner over age 50 goes to \$12,000. The “safe harbor” approach will assure the entire deferral is allowed even if none of the other employees make deferrals. This combination New Comparability profit sharing and Safe Harbor 401(k) can be an excellent design for the small business. (**UPDATE:** in 2007 the dollar limit is \$45,000 and the maximum elective deferral is \$15,500 with another \$5,000 “catch-up” contribution allowed at age 50 and over)

If a producer is able to introduce a new appealing design to the owner (and his advisors), it can easily result in large rollovers of existing assets and referrals to other business. The pension plan is the door opener. That is key and a major reason for being in the small plan marketplace!

Another existing plan that works well for the small business is the 412(i) Defined Benefit Plan. The **goal of this plan is to create a larger deduction than would be allowed in any other type of plan.** The ideal situation for this design is an independent contractor with no employees. Usually, this design works best if the owner is age 50 or above and has very few employees. By design, it is an expensive plan whose goal is to create a large deduction and accumulate large sums in a short period of time for the owners who have only a few years to retirement. Some illustrative contributions at selected ages are shown in the chart below.

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**MAXIMUM FIRST YEAR DEDUCTIONS AVAILABLE AT SELECTED AGES:**

	<u>ANNUITY ONLY</u>	<u>MAXIMUM LIFE INSURANCE AND ANNUITY</u>
AGE 45	\$105,238	\$128,685
AGE 50	\$152,040	\$189,020
AGE 55	\$246,669	\$315,738
AGE 60	\$266,313	\$367,559

Note: The contributions above are based upon the guaranteed annuity purchase rates, the guaranteed insurance cash values, and the guaranteed annuity accumulation rates of American National Insurance Company 412(i) qualified life and annuity products. The numbers assume the business owner at the selected ages has earnings of at least \$180,000, 2007 a retirement age of 65.

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A 412(i) plan allows an older business owner to accumulate substantial retirement funds if he has only a short period to retirement. The additional appeal is a large business deduction. This is a defined benefit plan so there is no contribution flexibility as is present in the profit sharing plan. A consistent income is necessary to complete the plan.

The plan has advantages over a traditional defined benefit plan in that the benefits are guaranteed by an insurance company. If level annual premiums are paid, the insurance company is absolutely guaranteeing the monthly benefit at retirement. No funds are held by

the employer. Generally the assets MUST be invested in fixed annuities or a combination of whole life and fixed annuities. Variable products cannot be used since the insurer must be able to guarantee all benefits based upon a set contribution level.

This is a conservative type of defined benefit plan. The plan is actually exempt from many of the funding requirements of 412 of the code (full funding limitation, quarterly contribution, actuarial certification, etc.). The reason for the exemption is the burden of providing the benefit is shifted from the employer to the insurance company. This is not a new type of design. It is simply little known because the assets must be invested with an insurance company. Usually this means the insurance company must have contracts that comply with 412(i) and the situation is more convenient if the company also does the plan administration. In today's world, there are very few insurance companies administering plans in the small plan marketplace so the "word" about this type of plan doesn't spread in the same way other designs do.

This is a very viable design for the right situation. It has many advantages over a traditional defined benefit plan such as a more understandable "accrued benefit" and a more consistent contribution pattern for the small business. Without going into more of the technical differences, suffice to say it may be worthwhile exploring the advantages in any particular situation. By the way, the new tax law creates an increase in the maximum benefit allowed and at an earlier retirement age which will actually add thousands more to the deductions shown in the accompanying chart for plan years ending after 12-31-01. It will also open the viability of this type of plan to much younger individuals than in the past.

A \$200,000 annual contribution to a plan with about one half being annual whole life premium produces a nice result for both the client and the producer. It also produces motivation for exploring the lucrative sales opportunities in the small plan marketplace.

The new tax law creates a multitude of opportunities with more than 60 new provisions to encourage small business retirement plans by raising all benefit and contribution levels and even creating a tax CREDIT for the first three years administrative costs of a new plan. There has NEVER been a better time to be in the small business retirement plan marketplace!

NOTE:  
THE ABOVE IS AN UPDATED COPY (FOR 2007) OF THE  
ARTICLE PUBLISHED  
IN THE OCTOBER 15, 2001 ISSUE OF  
THE NATIONAL UNDERWRITER MAGAZINE

# The 412(i) Fully Insured Defined Benefit Pension Plan for the Small Business

A type of defined benefit plan exists that is a very viable plan design for the “right” small business situation. What follows is a general description of this plan and a discussion to help identify the right type of situation where this plan will have appeal. The plan is called the 412(i) defined benefit plan, It is also referred to as an insurance contract plan. It will be referred to here by its third common name, the fully insured defined benefit plan.

This discussion will focus on the problems created by legislation for the traditional defined benefit plan and why the fully insured defined benefit alternative offers a solution to many of these problems. The fully insured approach is not for everyone, but small businesses with very few employees should be aware of this alternative. It can produce appealing results and solve some big problems in the right situation.

Generally, the fully insured plan would have the most appeal in a business with five or fewer employees where the owner is age 50 or older. The business should have a steady cash flow. The best situation is one in which there has been no previous plan in existence. Establishing a new fully insured plan can mean substantial deductions for the business and meaningful retirement benefits for the participants.

## Over-funding and Over-regulation of Traditional Defined Benefit Plans

Many existing traditional defined benefit plans may have become over-funded due to tax law changes in the last few years. In some situations, conversion to a fully insured plan may restore deductible contributions to the plan and eliminate penalties for reversion of excess assets upon plan termination.

Fully insured defined benefit plans are not a recent innovation, so why should this approach warrant closer consideration today? The reason is related to what might be termed “over-regulation” of the traditional defined benefit plan in the small business. The Employee Retirement Income Security Act of 1974 began an era of massive regulation of retirement plans. Originally, the goal was to end abuses in the funding of plans and to more adequately secure the rights and benefits of plan participants. Through the years, much of the regulation has seemed to be directed more at raising revenues than curbing abuses. At any rate, the end result of years of changing the rules for defined benefit plans, limiting benefits, cutting deductions, and attacking plan actuarial assumptions, has served to add confusion and complexity, and has increased administrative costs for the small business. The knockout punch for defined benefit plans came with the passage of the Omnibus Budget Reconciliation Act of 1987 (OBRA '87). The changes for defined benefit plans mandated by this Act have caused many small businesses to re-think the viability of the defined benefit plan. These changes will be discussed below, along with the reasons why the fully insured plan counters most of the problem areas.

Specifically, OBRA '87 contained mandates for defined benefit plans which included:

- ◆ quarterly contribution requirements with penalties for the improper amount or timing of the contributions.
- ◆ penalties on the reversion of excess assets to the employer at plan termination
- ◆ a new full funding limit substantially reducing or completely eliminating deductions in some situations; and
- ◆ new mandates that each actuarial assumption be reasonable standing alone and no longer reasonable “in the aggregate.”

Since these and other complex, confusing, and limiting factors for defined benefit plans are contained in IRC Sec. 412, the solution is to utilize a plan that is exempt from the funding requirements of IRC Sec. 412. If a plan meets the requirements of IRC Sec. 412 (i), it will be exempt from the section’s funding rules. For this reason, the 412(i) or fully insured plan deserves a closer look.

## **IRC Sec. 412 (i) Requirements :**

A defined benefit plan will meet the requirements of IRC Sec. 412 (i) if:

1. The plan is funded exclusively by the purchase of individual insurance contracts.
2. Such contracts provide for level annual premium payments to be paid extending not later than retirement age for each individual participating in the plan, and commencing with the date the individual becomes a participant in the plan.
3. Benefits provided by the plan are equal to the benefits provided under each contract at normal retirement age under the plan and are guaranteed by an insurance carrier to the extent premiums have been paid.
4. Premiums payable for the plan year, and all prior plan years, under such contracts have been paid before lapse or there is reinstatement of the policy.
5. No rights under such contracts have been subject to a security interest at any time during the plan year.
6. No policy loans are outstanding at any time during the plan year.

In a nutshell, if the plan invests entirely in acceptable insurance company contracts and does not allow loans, it can qualify as a 412(i) or fully insured plan, and be exempt from the funding requirements of IRC Sec. 412.

The advantages of being exempt from IRC Sec. 412 funding requirements need to be fully understood. This is the appeal of the fully insured plan. Let's explore these advantages in detail.

### **Advantages of the Fully Insured 412(i) Defined Benefit Plan**

The fully insured plan is not subject to the requirement of making quarterly contributions. In a traditional plan, these contributions are usually a nuisance for the small business. The correct amount of quarterly contribution is not always known soon enough to make the first quarterly contribution. If it is not made, the participants need to be informed or penalties will be incurred. If the contribution is too small, there will be interest penalties. If it is too large, a nondeductible contribution penalty may be incurred. The calculation of the full funding limit may mean no contribution can be made, but that may not be known until later in the year. Generally, quarterly contributions are an undesired complexity to the small business.

The mathematical results of the full funding limitation test may be the biggest problem of all for the small defined benefit plan. These annual calculations can cause the plan costs to fluctuate greatly. There may be little or no deduction in one year and then relatively high cost may be required the following year. Suddenly, the small business loses any handle on what the future cost pattern for the plan may be. Certainly, unknown costs are an undesirable trait for a small business retirement plan. Fully insured plans are not subject to the full funding limitation.

Inadvertent over-funding can occur in a traditional plan for various reasons, including higher than anticipated earnings, new changes in the law limiting benefits, and plan forfeitures. This can create excess plan assets. If the plan is terminated with excess assets that will revert to the employer, the plan will pay a 50 percent excise tax on the excess, in addition to income tax on the reversion to the corporation. The nature of the funding method of a fully insured plan should not create excess assets so there would be no reversion to be taxed and penalized.

Fully insured plans should not have the actuarial assumptions attacked since the assumptions are mandated to be the guaranteed rates in the insurance company products. If the benefits must be guaranteed by the contracts, the funding of the contracts must be based upon the guaranteed rates.

A fully insured plan is not required to file a Schedule B so the service of an enrolled actuary are not necessary for attesting to the funding of the plan.

Additional advantages of the fully insured plan include:

- ✓ It is more understandable since the participant's accrued benefit at any point is simply the amount of funds in the insurance company contracts. Historically, participants find it difficult to understand the pro-rata service or participation accrual definitions of the traditional defined benefit plan.
- ✓ Larger overall deductions are allowable because the funding assumptions are based on the contract guarantees. The lump sum equivalent of the monthly benefit is higher than in a traditional plan and the pre-retirement interest assumption is lower. The plan still benefits from current earnings, however, as the dividends of the insurance company contracts serve to reduce the next year's required contribution. The chart at the end of this article illustrates the initial level of deductions possible in a fully insured plan compared to the traditional defined benefit plan.

In total, these advantages are too important for the small business to ignore. The investment options are more limited but can be worth the trade-off. If the overall objective of the small business is a large deduction, a secure promise of benefits, a reasonable market rate of return on investments, more stability, and less complexity, then the fully insured plan has merit.

The cost of the plan remains a relatively known quantity in a fully insured plan. The traditional defined benefit plan may experience undesirable fluctuations under the full funding limit calculations. This handle on plan costs enjoyed by the fully insured plan can be one of the most important advantages of all for the small business.

Speaking very generally, traditional defined benefit plans have fallen into disfavor for the very small business for the reasons stated above. Unless the owner is at least 45- 50, a defined contribution plan may have more overall advantages – particularly the New Comparability profit sharing plans now allowed under non-discrimination rules.

There is still a need for the defined benefit plan for the very small business. Many times, only a defined benefit plan can meet the objectives of the business owner. In these cases, the advantages of the fully insured plan deserve close consideration.

There are relatively few insurance companies that fund and administer fully insured plans. One reason is that usually standard products would not normally be allowed to fund a 412(i) plan. A new product would have to be designed, or existing products would need to be amended to comply with the specifics of the 412(i) funding. Additionally, not many insurance companies market and administer plans for the small business situation. Usually the funding options for a 412(i) plan would be to totally fund the plan with a fixed annuity, or to fund the plan with a combination of fixed annuity and whole life products. Variable annuity and universal life products generally do not have the necessary guarantees to accommodate the funding and benefit requirements of a fully insured plan.

## Conclusion

To summarize, the future plans of choice for the small business may well be the new comparability profit sharing plan as the defined contribution option and the 412(i) fully insured plan as the defined benefit option. All small businesses and their advisors should be aware of both types of plans and the advantages of each.

See the following page illustrating maximum deductions available at selected ages for a 412(i) Defined Benefit Plan. Also included (as an additional bonus) is an illustration of the allocation possible within a New Comparability profit sharing plan favoring the owner of a small business.

## 412(i) FULLY INSURED DEFINED BENEFIT PLANS

These plans allow the largest possible deduction for the business owner. A good candidate for this plan design is an older independent contractor with few employees (or none) and who is earning a very high income. There is little flexibility in the contribution level each year. All benefits must be guaranteed by an insurance company so all assets must be invested in insurance company contracts.

### MAXIMUM FIRST YEAR DEDUCTIONS AVAILABLE AT SELECTED AGES:

	MAXIMUM LIFE INSURANCE	
	<u>ANNUITY ONLY</u>	<u>AND ANNUITY</u>
AGE 45	\$105,238	\$128,685
AGE 50	\$152,040	\$189,020
AGE 55	\$246,669	\$315,738
AGE 60	\$266,313	\$367,559

Note: The contributions above are based upon the guaranteed annuity purchase rates, the guaranteed insurance cash values, and the guaranteed annuity accumulation rates of American National Insurance Company 412(i) qualified life and annuity products. The numbers assume retirement age of 65, earnings of at least \$180,000 and a plan year that ends in 2007.

## NEW COMPARABILITY PROFIT SHARING PLANS

These plans allow for the largest possible share of the firm's contribution to be allocated to the owner and/or key employees. There is flexibility in the contribution level since it is a profit sharing plan and the contribution each year is discretionary. The plan works best when the business owner is older than most of the other employees. If maximum results are achieved, it is possible for the business owner to be allocated five times more than the other employees as a percentage of pay (i.e. 25% of salary contributed for the owner and 5% for all other employees).

	<u>Age</u>	Traditional		New Comparability		
		<u>Salary</u>	<u>Allocation</u>	<u>Salary</u>	<u>Allocation</u>	
OWNER	60	\$180,000	\$27,000	15%	\$45,000	25%
Employee	33	39,000	5,850	15%	1,950	5%
Employee	34	45,000	6,750	15%	2,250	5%
Employee	54	37,000	5,550	15%	1,850	5%
Employee	42	30,000	4,500	15%	1,500	5%
Employee	43	<u>29,000</u>	<u>4,350</u>	15%	<u>1,450</u>	5%
		\$360,000	\$54,000		\$54,000	
OWNER'S SHARE				50%		83%

Note: In the above example, the owner will receive \$18,000 more into his account without any increase in the contribution from the business. The plan is not considered discriminatory by the IRS even though the owner receives a much larger share of the profit sharing contribution.

# 412(i) FULLY INSURED DEFINED BENEFIT PLANS

## IN

### QUESTION AND ANSWER FORMAT

#### What is a 412(i) defined benefit pension plan?

A 412(i) defined benefit pension plan, referred to in IRS regulations as an “insurance contract plan”, is the only defined benefit plan that is exempt from the minimum funding requirements of Section 412 of the internal revenue code. This type of plan, therefore, enjoys certain advantages over the traditional defined benefit plan and is worth exploring if you are the owner of a small business.

These advantages create a plan that, compared to a traditional defined benefit plan, will produce:

- larger initial deductions
- more stability in the contribution level,
- simpler plan administration, and
- a secure promise of future benefits guaranteed by an insurance company.

#### What are the advantages of a 412(i) insurance contract plan over a “traditional” defined benefit plan?

A 412(i) insurance contract plan:

- does not require an enrolled actuary;
- is not subject to the full funding limitation tests of a defined benefit plan;
- is required to use the contract guarantees as funding assumptions, thus shielding them from IRS attack as unreasonable funding assumptions;
- can be designed to eliminate the potential of excess plan assets that, in a traditional plan, would be subject to taxes and penalties of 80% or more upon termination of the plan;
- produces an understandable accrued benefit since it is simply the cash value of the contracts funding the participant’s account;
- creates larger initial deductions than a traditional plan since the funding assumptions are required to be much more conservative; and
- provides retirement benefits that are guaranteed by the insurance company and not just the financial strength of the particular employer providing the plan.

#### What requirements must be met to qualify as a 412(i) insurance contract plan?

The major requirements under Section 412(i) of the Internal Revenue Code are:

- The plan must be funded exclusively with annuity products, or a combination of life insurance and annuity products, issued by an insurance company.
- The benefits provided each individual must be equal to the values provided in the contracts and guaranteed by the insurance carrier.
- Life insurance dividends and excess annuity interest must be used to reduce the following year’s plan contribution.
- No policy loans are allowed under the contracts.

#### How does the initial deductible contribution required in a 412(i) plan compare to a traditional defined benefit plan?

Generally, a plan funded with only annuity contracts may DOUBLE the deductions allowed under a traditional plan. A plan funded with both annuity and the maximum life insurance allowed may TRIPLE the deduction allowed in a traditional defined benefit plan. See the appendix page that illustrates the maximum first year contribution levels for a 412(i) plan funded with ANICO products. These contribution levels are shown from ages 35 to 65. Comparisons are made for plans funded entirely with annuity contracts and those funded with a combination of annuity and the maximum amount of life insurance available under the incidental insurance rules for qualified plans.

## **Are 412(i) plans new to the retirement planning marketplace?**

No. These plans have been around since ERISA (in 1974) or even before. They were referred to as “fully insured defined benefit plans”. In past years, before the demise of retirement endowment contracts, they were fully funded with a retirement endowment contract issued with a face amount equal to 100 times the normal retirement benefit. They are not a “grey area” of the law and are, in fact, a very conservative approach to retirement plan funding. All benefits are guaranteed by an insurance company.

## **Where do you go to find a 412(i) plan?**

Generally, you will go to an insurance company that sells these types of plans. The funding must be in insurance company products and the company must guarantee the benefits. There are very few insurance companies who market and administer small business retirement plans so there are very few companies that market 412(i) plans. That is why it is a plan that is somewhat unfamiliar to most CPA's and small business owners.

## **Why does American National market these plans?**

We believe it is a market that is under-served. We specialize in the small business retirement plan marketplace. We design, administer, and fund plans for the small business. It is, therefore, natural that we market 412(i) plans. These are specialized plans that create large deductions. In the right situation, there is no other plan that will meet the needs of the small business owner. If a traditional defined benefit plan does not create sufficient deductions, there is nowhere else to turn but to a 412(i) fully insured plan.

## **What products are utilized at American National for these plans?**

We have available a Whole Life product and a Life Paid Up at 65 product as well as both an individual and group fixed annuity for this marketplace.

## **Do the contributions remain level forever?**

The contributions will gradually decrease since the excess interest earned over the guaranteed rate must be used to reduce the following year's contribution. The dividend payable on the life policy will also be used to reduce the following year's contribution. However, if the deduction decrease becomes a problem, it is likely the plan benefit can be increased to compensate for that since the maximum benefit levels are subject to annual cost of living increases declared each year.

## **What does American National charge to administer these plans?**

We charge \$200 to establish the plan which includes providing the plan and trust document and providing the plan trustee with a manual including all documents and administrative forms that may be needed in the future. Annually, we charge \$700 to provide full administration (\$600 if a one person plan). The full administration includes all IRS and DOL forms and the plan valuation and 5500 forms required. The forms will be prepared and ready for the trustee to sign and mail each year to the proper government agency. Note that for new plans established in 2002 and thereafter, the new tax law (EGTRRA) allows a **50% tax credit** for the first three plan years for administrative expenses (up to the first \$1,000 of expenses).

## **What is necessary to see if a plan is feasible for you?**

American National will provide a FREE feasibility study to see if a plan fits your situation. All that is needed from you is a census of all employees of the firm.

## **Who is the best prospect for this type of plan?**

Generally, it will be a firm with 5 or less employees where the owner is at least age 50 and earns a very high, consistent income. The ideal prospect is an independent contractor with no employees.

Defined Benefit Plans for 2007  
Maximum First Year Contribution  
w/ Affinity 7 Whole Life  
Normal Retirement Age 65  
(or 5 years of participation, if later)

Age	Monthly Benefit	Traditional DB Annuity Only	Traditional DB Life and Annuity	412(i) Annuity Only	412(i) Life and Annuity
35	15,000	23,339	32,574	59,438	71,519
36	15,000	25,056	34,863	62,536	75,377
37	15,000	26,925	37,341	65,868	79,503
38	15,000	28,963	39,828	69,462	83,158
39	15,000	31,191	42,975	73,348	88,791
40	15,000	33,631	46,174	77,560	93,991
41	15,000	36,310	49,691	82,140	99,697
42	15,000	39,261	53,544	87,135	105,895
43	15,000	42,522	57,814	92,603	112,757
44	15,000	46,136	62,527	98,610	120,279
45	15,000	50,159	67,795	105,238	128,685
46	15,000	54,654	73,664	112,585	137,986
47	15,000	59,702	80,287	120,771	148,481
48	15,000	65,400	87,803	129,944	160,380
49	15,000	71,871	96,293	140,289	173,709
50	15,000	79,272	106,056	152,040	189,020
51	15,000	87,800	117,364	165,500	206,714
52	15,000	97,718	130,596	181,062	227,380
53	15,000	109,373	146,225	199,252	251,715
54	15,000	123,241	164,785	220,786	280,441
55	15,000	139,986	187,566	246,669	315,738
56	13,500	144,510	194,277	250,515	323,541
57	12,000	149,139	201,505	254,402	332,052
58	10,500	153,873	209,389	258,331	341,471
59	9,000	158,713	218,606	262,301	352,954
60	7,500	163,659	229,856	266,313	367,559
61	8,081	172,217	242,994	278,298	386,075
62	8,715	181,227	256,361	290,804	404,574
63	9,407	190,709	270,033	304,468	424,034
64	10,167	200,681	284,007	317,817	442,371
65	11,005	211,189	298,372	332,624	462,109

Notes:

1. Assumes a "life only" annuity, annual compensation of at least \$180,000, and IRC 415 maximum benefit schedule of \$180,000 at retirement age 65 or 5 years of participation if later.
2. Traditional DB funding projections based on a 6% pre 5.5% post retirement interest rates and G94 mortality table.
3. 412(i) funding based on ANICO guaranteed annuity purchase rates at normal retirement age, 3% guaranteed interest rate on annuity and ANICO [Affinity7 Q Whole Life](#) guaranteed cash values if life insurance is used.
4. Subsequent years contributions for 412(i) plans would be reduced by any excess interest earnings and/or life insurance dividends earned. Traditional contributions would fluctuate based on actual investment earnings compared to assumed 6%.

## 412(i) DEFINED BENEFIT PLANS SAMPLE PRE-APPROACH LETTER TO CPA'S

Dear CPA,

**Re: 412(i) DEFINED BENEFIT PLANS**

Do you have clients who would like a very large deduction for their business? Are you aware of 412(i) Defined Benefit plans? These plans allow for the largest possible deductions to a small business retirement plan. These plans are particularly suited for independent contractors who have few or no employees. They are designed to maximize the deduction for the older small business owner to enable him to accumulate funds for his retirement in a very short period of time.

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MAXIMUM FIRST YEAR DEDUCTIONS AVAILABLE AT SELECTED AGES:

	<u>ANNUITY ONLY</u>	MAXIMUM LIFE INSURANCE <u>AND ANNUITY</u>
AGE 45	\$105,238	\$128,685
AGE 50	\$152,040	\$189,020
AGE 55	\$246,669	\$315,738
AGE 60	\$266,313	\$367,559

Note: The contributions above are based upon the guaranteed annuity purchase rates, the guaranteed insurance cash values, and the guaranteed annuity accumulation rates of American National Insurance Company 412(i) qualified life and annuity products. The numbers also assume the business owner at the selected ages has earnings of at least \$180,000 and a normal retirement age of 65, and a 2007 plan year.

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Do you have any clients with over-funded Defined Benefit plans? Did you know they may lose 90% or more of the excess assets to taxes and penalties upon termination of the plan when the assets revert to the corporation? Did you know that 412(i) plans may be the only viable solution to the problem?

These plans are not a "grey area" and have been in existence for more than 25 years. The IRS created special code section 412(i) for these plans to exempt them from many of the requirements of traditional defined benefit plans since an insurance company must guarantee the plan benefits.

I plan to call you soon to arrange an appointment to see if you would like to know more about these specialized plans. These plans are ideally suited to certain unique situations in many small businesses and yet are not well known.

I'm looking forward to speaking to you in the near future.

Sincerely,

\*This is not intended to be tax or legal advice from American National or its agents. Please consult your tax advisor or attorney for advice in your specific situation.

## **412(i) DEFINED BENEFIT PLANS SAMPLE PRE-APPROACH LETTER TO BUSINESS OWNERS**

Dear Business Owner,

**Are you paying too much income tax? Are you looking for a very large retirement plan contribution to help you save for retirement?**

Are you aware of 412(i) Defined Benefit plans? These plans allow for extremely large deductions to a small business retirement plan. These plans are particularly suited for independent contractors who have few or no employees. They are designed to maximize the deduction for the older small business owner to enable him to accumulate funds for his retirement in a very short period of time.

---

### MAXIMUM FIRST YEAR DEDUCTIONS AVAILABLE AT SELECTED AGES:

	<u>ANNUITY ONLY</u>	<u>MAXIMUM LIFE INSURANCE AND ANNUITY</u>
AGE 45	\$105,238	\$128,685
AGE 50	\$152,040	\$189,020
AGE 55	\$246,669	\$315,738
AGE 60	\$266,313	\$367,559

Note: The contributions above are based upon the guaranteed annuity purchase rates, the guaranteed insurance cash values, and the guaranteed annuity accumulation rates of American National Insurance Company 412(i) qualified life and annuity products. The numbers also assume the business owner at the selected ages has earnings of at least \$180,000 and a normal retirement age of 65, and a 2007 plan year.

---

These plans are not a “gray area” and have been in existence for more than 25 years. The IRS created special code section 412(i) for these plans to exempt them from many of the requirements of traditional defined benefit plans since an insurance company must guarantee the plan benefits.

I plan to call you soon to arrange an appointment to see if you would like to know more about 412(i) Defined Benefit retirement plans. These plans are ideally suited to certain unique situations in many small businesses and yet are not well known.

I’m looking forward to speaking to you in the near future.

Sincerely,

\*This is not intended to be tax or legal advice from American National or its agents. Please consult your tax advisor or attorney for advice in your specific situation.

## NEW COMPARABILITY PROFIT SHARING PLANS

### GREAT NEWS FOR THE SMALL BUSINESS!!

Internal Revenue Regulations now allow innovative designs for Profit Sharing plans. This means great news for the small business. Profit Sharing contributions can be allocated heavily in favor of the owner in many situations. The most favorable type of design for many small businesses is called the **NEW COMPARABILITY** profit sharing plan.

This method of allocating Profit Sharing contributions was the subject of Final Regulations issued by the IRS in June of 2001. This method of allocating contributions simply means the owner of the typical small business, if older than most of the other employees, should get a much larger share of the profit sharing plan contribution compared to "traditional" methods of allocating the contributions. Every firm with an existing Profit Sharing plan should examine whether this plan design would be beneficial to them. Other firms who had decided against installing a new plan in the past should also review their situation, especially in light of the numerous pension provisions included in new Tax Act just passed in June (the Economic Growth and Tax Relief Reconciliation Act of 2001). Many favorable provisions were enacted to specifically encourage the establishment and ease the administration of small business retirement plans.

In testing IRS nondiscrimination compliance for New Comparability profit sharing plans, a comparison of the projected BENEFITS of the participants is performed to prove that the plan is nondiscriminatory. In a "traditional" plan, only CONTRIBUTIONS are compared. This testing of "benefits" usually means more favorable allocations for the owners of small businesses. Consider the comparison below between a "traditional" profit sharing allocation and a "new comparability" allocation:

	<u>Age</u>	<u>Salary</u>	<u>Traditional Profit Sharing Allocation</u>	<u>% of Salary</u>	<u>New Comparability Profit Sharing Allocation</u>	<u>% of Salary</u>
OWNER	60	\$180,000	\$27,000	15%	\$45,000	25%
Employee	33	39,000	5,850	15%	1,950	5%
Employee	34	45,000	6,750	15%	2,250	5%
Employee	54	37,000	5,550	15%	1,850	5%
Employee	42	30,000	4,500	15%	1,500	5%
Employee	43	<u>29,000</u>	<u>4,350</u>	15%	<u>1,450</u>	5%
		\$360,000	\$54,000		\$54,000	
<b>OWNER'S SHARE</b>			<b>50%</b>		<b>83%</b>	

The above example illustrates the allocation possibilities of the **NEW COMPARABILITY** plan compared to the results of traditional plan designs. The typical small business owner, needless to say, would be pleased to learn of this option for increased efficiency in the firm's retirement plan expenditures. In the example, the owner is allocated 25% of salary and everyone else is allocated 5% of salary. Without knowledge of this new plan design, small employers may be spending more than necessary for their retirement plans.

Each firm's situation is different and the demographics of the employee group will determine how favorable this plan design will be in any specific fact situation. Small employers owe it to themselves to examine this concept, and accountants owe it to their clients to become familiar with this and other types of new plans now allowed for small businesses.

### THE 2001 TAX ACT CREATED MANY NEW RETIREMENT PLANNING OPPORTUNITIES FOR THE OWNER OF A SMALL BUSINESS

TAKE A FREE LOOK AT WHAT A PLAN COULD DO IN YOUR SPECIFIC SITUATION !  
ALL THAT IS NEEDED IS A CENSUS OF THE FIRM'S EMPLOYEES.  
IT MAY BE COSTING YOU MONEY NOT HAVING A PLAN !!

## GENERAL PROCEDURES FOR TESTING NEW COMPARABILITY PROFIT SHARING PLANS

### PROCEDURE FOR CROSS TESTING A “CONTRIBUTION” PLAN ON A “BENEFITS” BASIS UNDER THE 401(A)(4) REGULATIONS TO PROVE NONDISCRIMINATION

1. Determine the Equivalent Benefit Accrual Rates (EBAR’s) for all employees. This is the projected annual benefit at age 65 as a percentage of current salary assuming the current year’s allocation for each employee is projected to retirement using acceptable IRS interest and mortality assumptions. (see chart on page 5 for EBAR calculations)
2. Determine if the *plan* passes the “*average benefits percentage*” test. This is done by finding the ratio of the average benefit (EBAR) of the Non-Highly Compensated Employees (NHCE’s) to the average benefit (EBAR) of the Highly Compensated Employees (HCE’s). This ratio must be equal to or greater than **70%** for the plan to pass this test. (see page 6 for HCE determination)

If the plan does not pass this test, redesign must be performed or the plan will be considered discriminatory. If the test is passed, then proceed with step 3 below.

3. Determine the concentration of NHCE’s for the *plan*. This is found by dividing the number of NHCE’s in the plan by the total number of employees in the plan. Once this concentration percentage is found, determine the midpoint of the safe and unsafe harbors per the chart in the 410(b) regulations. (see chart on page 5 for midpoint percentages)
4. Divide the plan into “rate groups”. The number of rate groups is equal to the number of HCE’s. A rate group exists for each HCE in the plan and consists of that HCE and all other employees (both HCE’s and NHCE’s) in the plan who have an EBAR equal to or greater than the HCE’s EBAR.
5. Determine if *each rate group* passes the “*ratio percentage*” test. The ratio percentage test compares the number of participants, rather than the amount of benefits. The test is performed by dividing the ratio of NHCE’s (number of NHCE’s in the rate group divided by the number of NHCE’s in the plan) by the ratio of HCE’s (number of HCE’s in the rate group divided by the number of HCE’s in the plan).

To pass the test, the ratio of NHCE’s to the ratio of HCE’s in each rate group must be a percentage equal to or exceeding the *midpoint* of the safe and unsafe harbor percentages found in step 3.

If **ALL** rate groups pass the ratio percentage test, the plan as a whole **PASSES the nondiscrimination testing of the 401(a)(4) regulations!!**

If one or more of the rate groups fails the ratio percentage test, the plan will be considered discriminatory and redesign of the plan will be necessary.

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#### SUMMARY

The plan will pass the nondiscrimination testing if:

1. The plan passes the “average benefits percentage” test with a percentage of 70 or more,
- AND**
2. All rate groups pass the “ratio percentage” test with a percentage equal to or greater than the midpoint between the safe and unsafe harbor percentage.

## EXAMPLE OF CALCULATIONS:

**OBJECTIVE:** Give the census below and the level of contributions shown, perform the mathematical testing under the 401(a)(4) regulations to prove the plan will be considered nondiscriminatory:

<u>AGE</u>	<u>SALARY</u>	<u>PROFIT SHARING ALLOCATIONS</u>	<u>ALLOC. AS % OF SALARY</u>	<u>CLASS (HCE OR NHCE)</u>
60	\$ 80,000	\$ 20,000	25%	Highly Compensated Employee (HCE)
33	\$ 33,000	\$ 990	3%	Non-Highly Compensated Employee(NHCE)
34	\$ 29,000	\$ 870	3%	Non-Highly Compensated Employee(NHCE)
47	<u>\$ 31,000</u>	<u>\$ 930</u>	3%	Non-Highly Compensated Employee(NHCE)
	\$173,000	\$ 22,790		

- Determine the Equivalent Benefit Accrual Rate (EBAR) at retirement from the chart on page 5 by multiplying the percentage of salary allocated above the EBAR listed for each 1% allocation.

<u>RETIREMENT</u>	<u>EMPLOYEE</u>	<u>AGE</u>	<u>ALLOC. AS % OF SALARY</u>	<u>FROM</u>	<u>EBAR AT CHART</u>
	HCE 1	60	25	x	.1892 = 4.730
	NHCE 1	33	3	x	1.7118 = 5.135
	NHCE 2	34	3	x	1.5777 = 4.733
	NHCE 3	47	3	x	.5463 = 1.638

- Determine if the plan passes the “average benefits percentage” test by finding the ratio of the average benefit (EBAR) of the NHCE’s to the average benefit (EBAR) of the HCE’s.

$$\text{Av. Ben. of NHCE's} = \frac{5.135 + 4.733 + 1.638}{3} = 3.835 \quad \text{Av. Ben. of HCE's} = 4.730 \quad \text{Ratio} = \frac{3.835}{4.730} = 81\%$$

To pass, the ratio must equal to or greater than 70%. The ratio is 81% so the plan *PASSES* this test.

- Determine the concentration of NHCE’s in the plan and the midpoint percentage from the chart on page 5.

The concentration of NHCE is  $\frac{3}{4} = 74\%$ . The corresponding midpoint percentage from the chart is 33.75%

- Divide the plan into rate groups. Only one rate group exists in this plan since there is only one HCE. The rate group consists of the HCE and all others with an EBAR equal to or greater than that of the HCE. Therefore, the rate group is composed of: HCE 1 and NHCE 1 and 2.

- Determine if each rate group passes the “ratio percentage” test by dividing the ratio of NHCE’s in the rate group (NHCE’s in the rate group divided by the NHCE’s in the plan) by the ratio of HCE’s in the rate group (HCE’s in the rate group divided by the HCE’s in the plan).

$$\text{Ratio of NHCE's} = \frac{2}{3} = .667, \text{ ratio of HCE's} = \frac{1}{1} = 100. \quad \frac{.667}{1.000} = 67\%$$

To pass, the ratio must be equal to or greater than the midpoint percentage, 33.75%, found in step 3. The ratio here is 67% so the plan *PASSES* this test also.

The plan *PASSES* the “average benefits percentage” test **and** each rate group *PASSES* the “Ratio percentage” test so THE PLAN PASSES THE NONDISCRIMINATION TESTING  
Of the 401(a)(4) regulations!!!!

## EBAR PRODUCED BY A CONTRIBUTION OF 1% SALARY

<u>AGE</u>	<u>EBAR</u>	<u>AGE</u>	<u>EBAR</u>	<u>AGE</u>	<u>EBAR</u>
64	.1365	49	.4641	34	1.5777
63	.1481	48	.5035	33	1.7118
62	.1607	47	.5463	32	1.8573
61	.1744	46	.5928	31	2.0152
60	.1892	45	.6431	30	2.1865
59	.2053	44	.6978	29	2.3724
58	.2227	43	.7571	28	2.5740
57	.2416	42	.8215	27	2.7928
56	.2622	41	.8913	26	3.0302
55	.2845	40	.9671	25	3.2878
54	.3086	39	1.0493	24	3.5672
53	.3349	38	1.1384	23	3.8704
52	.3633	37	1.2352	22	4.1994
51	.3942	36	1.3402	21	4.5564
50	.4277	35	1.4541	20	4.9437

“EBAR” is the Equivalent Benefit Accrual Rate. This is the projected benefit at the normal retirement date – as a percentage of current salary. The benefit is derived by assuming the contribution for this year only is accumulated until retirement and then used to purchase a lifetime annuity.

Assumptions used to develop the above chart: 8.5% pre-retirement interest and an annuity purchase rate of \$95.38 per \$1 of monthly benefit (1984 unisex mortality, 8.5% post-retirement interest, “life only” annuity, and normal retirement age of 65.)

## MIDPOINT OF THE SAFE AND UNSAFE HARBOR PERCENTAGES

<u>% of</u>	<u>Mid-</u>	<u>% of</u>	<u>Mid-</u>	<u>% of</u>	<u>Mid-</u>	<u>% of</u>	<u>Mid-</u>
<u>NHCE</u>	<u>Point</u>	<u>NHCE</u>	<u>Point</u>	<u>NCHE</u>	<u>Point</u>	<u>NHCE</u>	<u>Point</u>
60	44.00	70	37.50	80	30.00	90	23.75
61	44.25	71	36.75	81	29.25	91	23.38
62	43.50	72	36.00	82	28.50	92	23.00
63	42.75	73	35.25	83	27.75	93	22.63
64	42.00	74	34.50	84	27.00	94	22.25
65	41.25	75	33.75	85	26.25	95	21.88
66	40.50	76	33.00	86	25.50	96	21.50
67	39.75	77	32.25	87	24.88	97	21.13
68	39.00	78	31.50	88	24.50	98	20.75
69	38.35	79	30.75	89	24.13	99	20.38

The mid-point percentage above is the midpoint between the safe and unsafe harbor percentages as outlined in the 401(b) regulations. The concentration of NHCE’s is the number of NHCE’s in the plan divided by the total number of employees in the plan.

**NEW COMPARABILITY PROFIT SHARING PLANS  
SAMPLE PRE-APPROACH LETTER TO CPA'S**

Dear CPA,

Are you aware that Profit Sharing plans now have new rules? Allocations no longer have to be the same percentage for all employees and this presents exciting new planning opportunities for small business owners!

If you have clients who have or wish to have a Profit Sharing plan, you owe it to yourself and to them to become familiar with the new concept called **NEW COMPARABILITY** Profit Sharing plans. Consider the example below for 2007. Which plan has more appeal?

---

	<u>Age</u>	<u>Salary</u>	<u>Traditional Profit Sharing Allocation</u>	<u>% of Salary</u>	<u>New Comparability Profit Sharing Allocation</u>	<u>% of Salary</u>
OWNER	60	\$180,000	\$27,000	15%	\$45,000	25%
Employee	33	39,000	5,850	15%	1,950	5%
Employee	34	45,000	6,750	15%	2,250	5%
Employee	54	37,000	5,550	15%	1,850	5%
Employee	42	30,000	4,500	15%	1,500	5%
Employee	43	<u>29,000</u>	<u>4,350</u>	15%	<u>1,450</u>	5%
		\$360,000	\$54,000		\$54,000	
<b>OWNER'S SHARE</b>			50%		83%	

---

The owner in the sample above, for the same contribution from the business, can almost double his own allocation of the firm's Profit Sharing contribution. And his contribution, as a percentage of salary, is **FIVE TIMES** that of the other employees.

Wouldn't you like to hear more? Wouldn't your clients who are small business owners like to know if they could get a larger slice of the Profit Sharing pie?

I specialize in tax deductible\* retirement plans for the small business and will call you soon to see if I can be of service to you and your clients.

Sincerely,

\*This is not intended to be tax or legal advice from American National or its agents. Please consult your tax advisor or attorney for advice in your specific situation.

# NEW COMPARABILITY

## SAMPLE PRE-APPROACH LETTER TO BUSINESS OWNERS

Dear Business Owner,

Are you aware that Profit Sharing plans now have new rules? The GOOD NEWS is allocations are no longer required to be the same percentage of salary for all employees.

If you have or wish to have a Profit Sharing Plan for your firm, you owe it to yourself to become familiar with the concept called a **NEW COMPARABILITY** Profit Sharing Plan. Consider the example below for 2007. Which plan has more appeal to you?

<u>Age</u>	<u>Salary</u>	<b>"Traditional" Profit Sharing</b>		<b>"New Comparability" Profit Sharing</b>	
		<u>Allocation</u>	<u>% of Salary</u>	<u>Allocation</u>	<u>% of Salary</u>
60	\$180,000	\$27,000	15%	<b>\$45,000</b>	25%
33	39,000	5,850	15%	<b>1,950</b>	5%
34	45,000	6,750	15%	<b>2,250</b>	5%
54	37,000	5,550	15%	<b>1,850</b>	5%
42	30,000	4,550	15%	<b>1,500</b>	5%
43	<u>29,000</u>	<u>4,350</u>	15%	<u><b>1,450</b></u>	5%
	\$360,000	\$54,000		<b>\$54,000</b>	
Owner's share:		(50%)		<b>(83%)</b>	

The owner above, for the same contribution from the business, can almost double his own allocation of the Profit Sharing contribution! And his contribution, as a percentage of salary, is **five times** the percentage of other employees.

Wouldn't you like to hear more? Wouldn't you like to know if you, as a business owner, could receive a larger slice of your firm's Profit Sharing contribution?

I specialize in Qualified Plans for the small business and will call you soon to see if I can be of service to you.

Sincerely,

\*This is not intended to be tax or legal advice from American National or its agents. Please consult your tax advisor or attorney for advice in your specific situation.

## GOOD NEWS FROM THE NEW TAX ACT

The new tax law now allows a one-person 401(k) plan. In the past, if the business was taking the maximum allowable deduction of 15%, no further contributions could be made. Any 401(k) elective deferral was counted toward the maximum deduction of the business so the owner could make no 401(k) deferral.

That has now changed since **the deferral on behalf of the participant no longer counts against the maximum business deduction**. In addition, beginning this year, **the maximum business deduction was increased to 25% of participant's salaries** for a profit sharing plan. This combination of increased business deferral and a new allowable personal 401(k) deferral creates the scenario below for a one-person corporation with a salary of \$50,000 for the owner.

This example also demonstrates the new 401(k) "catch up" deferral for those ages 50 and over. Rather than just the increased \$15,500 deferral, the owner is allowed an additional \$5,000 deferral in 2007 for a total of \$20,500.

Study the comparison below to see how **the owner's total retirement deduction increased from 15% of taxable salary in 2001 to 112% in 2007!**

THERE HAS NEVER BEEN A BETTER TIME TO BE IN THE SMALL BUSINESS RETIREMENT PLAN MARKETPLACE! LET US HELP YOU. ANICO PERFORMS TOTAL PLAN SERVICES INCLUDING PLAN DESIGN, ADMINISTRATION, AND FUNDING FOR ALL TYPES OF PENSION AND PROFIT SHARING PLANS.

### THE ONE PERSON 401(k)

EXAMPLE: ONE PERSON CORPORATION  
TOTAL PROFIT SHARING DEDUCTIONS AVAILABLE PREVIOUSLY (2001)  
COMPARED TO THIS YEAR (2004) THANKS TO THE NEW TAX LAW (EGTRRA)

<u>YEAR</u>	<u>AGE</u>	<u>SALARY BEFORE DEFERRAL</u>	<u>MAXIMUM PROFIT SHARING CONTRIBUTION</u>	<u>MAXIMUM ELECTIVE DEFERRAL</u>	<u>TOTAL DEDUCTION</u>	<u>TAXABLE SALARY</u>	<u>% OF TAXABLE SALARY</u>
2001	50	\$50,000	\$ 7,500	-0-	\$ 7,500	\$50,000	<b>15%</b>
2007	50	\$50,000	\$12,500	\$20,500	\$33,000	\$29,500	<b>112%</b>

# PENSION OPPORTUNITIES ARE EFFECTIVE IMMEDIATELY UNDER NEW TAX LAW

Would you believe a deduction of **204% of taxable income**? It's a possibility under the new tax law. The example below demonstrates a specific situation and the deduction possibilities in a profit sharing plan after EGTRRA. The new pension rules are effective THIS YEAR. This demonstrates the deductions allowable in this situation and compares them to what would have been allowed in the past. The total deduction is almost triple what would have been allowed under the old rules.

	AGE	SALARY	PLAN CONTRIBUTION	ELECTIVE DEFERRAL	TOTAL DEDUCTIONS
<b>Owner</b>	<b>50</b>	<b>\$191,000</b>	<b>\$29,500</b>	<b>\$20,500</b>	<b>\$50,000</b>
<b>Spouse</b>	<b>50</b>	<b>\$ 45,000</b>	<b>\$29,500</b>	<b>\$20,500</b>	<b>\$50,000</b>
<b>Total</b>		<b>\$236,000</b>	<b>\$59,000</b>	<b>\$41,000</b>	<b>\$100,000</b>

COMPARISON OF THIS SITUATION'S MAXIMUM DEDUCTIONS TO A PROFIT  
SHARING PLAN WITH THE SAME SALARIES IN 2001 AND 2007  
(BEFORE AND AFTER EGTRRA)

	<u>2001</u>	<u>2007</u>
<b>OWNER</b>	<b>\$25,500</b>	<b>\$50,000</b>
<b>SPOUSE</b>	<b>\$ 6,600</b>	<b>\$50,000</b>
	<b>\$32,100</b>	<b>\$100,000</b>
<b>Taxable salary for spouse</b>	<b>=</b>	<b>\$24,500</b>
<b>Total deductions for spouse</b>	<b>=</b>	<b>\$50,000</b>

**SPOUSE'S DEDUCTIONS TOTAL 204% OF TAXABLE SALARY !**

This is but one of the examples of increased deductions and increased flexibility under the new tax law. Let the pension department help you open doors to small business owners and their advisors. For more information, call Pension Sales at 888-909-6504.

*DETAILS OF ABOVE EXAMPLE: PROFIT SHARING PLAN CONTRIBUTION OF 66% OF SALARY (TO MAXIMUM OF \$29,500) AND A \$20,500 DEFERRAL EACH TO THE 401(k) PORTION OF THE PLAN*



## DASH FOR THE CASH !!

YOU'RE A LEADER IN THE PENSION RACE

### NEW SALES IDEA !!

A new tax law change allows us to present to you one of the most appealing retirement plans ever for many small businesses! New tax laws created a new type of plan effective in 1999 and "EGTRRA" passed in 2001 enhanced the advantage of this new plan for small businesses. The new plan is a **"safe harbor 401(k)"** plan. If certain rules are met regarding the employer's contribution, there is no ADP testing. This simply means the HCE's (Highly Compensated Employees) can contribute the maximum \$15,500 as an elective deferral to a 401(k) plan without regard to what the other employees contribute. If the owner is at least age 50, another \$5,000 can be added in 2007 as a "catch up" contribution. This type of plan is particularly suited to the small business.

What we want to introduce to you NOW, however, is **EVEN BETTER** than the new safe harbor 401(k) plans. The acronym for the even newer approach to 401(k) plans is the **DASH PLAN**. The DASH plan is a **"Double Advantage Safe Harbor"** 401(k) plan. You will be able to offer a double advantage to your prospects.

In addition to deferring up to \$20,500 with no annual deferral percentage testing in the 401(k) plan, we can add the advantage of allocating the employer's additional discretionary contribution on a cross-tested basis. With this second advantage, we give the owner a larger share of the small business contribution (assuming he is older than most of the other employees).

Here is how it works. The employer contributes 3% of salary (fully vested) for all employees, including himself. Then he contributes \$20,500 for himself (assuming he's over age 50) as an elective deferral. We will then perform the nondiscrimination testing for the new comparability approach to the profit sharing allocation. This will allow us to demonstrate how much more can be contributed for the owner and how that will effect the contribution for the other employees. In the example below, the business is able to deduct another \$28,150 on the owner's behalf with only an additional \$2,320 contribution for the other employees. **The owner gets almost 90% of the total contribution, has \$50,000 set aside on a deductible basis, and pays income tax on only \$24,500!!**

### DASH PLAN

...Double Advantage Safe Harbor 401(k)...

	age	salary	Step 1 3% vested employer contribution	Step 2 401(k) elective deferrals by employees	Step 3 additional employer contribution allowed under "new comparability" testing rules	TOTAL ALLOCATION
OWNER	60	\$45,000	\$1,350	\$20,500	\$28,150	\$50,000
employee	54	33,000	990	-0-	660	1,650
employee	27	31,000	930	-0-	620	1,550
employee	27	29,000	870	-0-	580	1,450
employee	26	23,000	690	-0-	460	1,150
Totals		\$161,000	\$4,830	\$20,500	\$30,470	\$55,800

Note: (BASED ON THE AGES IN THE EMPLOYEE GROUP ABOVE)

- 1) The owner can contribute the maximum of \$20,500 as a 401(k) elective deferral (which includes a \$5,000 "catch up" contribution allowed by EGTRRA) even though none of the other employees elect to defer any salary into the 401(k) portion of the plan.
- 2) An additional \$28,150 is allowed as an employer contribution (and deduction) allocated to the owner if a mere 2% additional is contributed on behalf of the other employees. This is your advantage over a traditional safe harbor 401(k) because we allocate the profit sharing portion under "New Comparability" rules. This, of course, allows you to.....

**DOUBLE YOUR ADVANTAGE IN MARKETING SMALL BUSINESS RETIREMENT PLANS !**

## New IRA Rollover Opportunities

EGTRRA (and now PPA 2006) allow IRA rollovers into qualified plans. This is an opportunity to roll over ANY IRA funds into a qualified plan. This could be a huge opportunity for sales. Why? There are five major reasons why someone might want to rollover IRA funds into a qualified plan.

Keep in mind that IRA funds are not available for loans, they are not available for the purchase of insurance, they have a 10% penalty if withdrawn before age 59 ½, they are still subject to creditors in many states, and they may have limited investment options.

When the IRA funds are rolled into a qualified plan, the funds now take on the characteristics of qualified plan money. This means:

- 1) The funds are available for loans. For the first time ever, this also includes sole-proprietors, partners, and Subchapter S shareholders.
- 2) The funds are available for the unlimited purchase of insurance. There are no limits to the amount of insurance purchased with rollover money in a qualified plan.
- 3) Funds withdrawn from a qualified plan are not subject to a 10% penalty if withdrawn after age 55 if there is separation of employment. There is not the need to wait until age 59½ to avoid the penalty like there is in an IRA or TSA.
- 4) Qualified funds are protected from bankruptcy. This may be reason enough for a rollover in a state where IRA funds are not protected from bankruptcy.
- 5) In a qualified plan, there may be more investment opportunities than in the IRA. In ANICO's group variable annuity, for example, there are 40 investment options available through seven money managers. And this product can be sold by a producer who is not NASD licensed.

The qualified plan of choice would normally be a profit sharing plan due to the contribution flexibility. Therefore, small business owners may choose to establish a profit sharing plan to avail themselves of the opportunity to roll over their IRA funds as well as the chance to make additional deductible contributions into the profit sharing plan to save for retirement.

This is just one more of the many opportunities presented by the new tax law. Remember, over 60 provisions were introduced to encourage the establishment of small business retirement plans, increase the portability of qualified funds, reduce the cost and complexity of administration, and increase the contribution and benefit limits of qualified plans. ANICO can design, install, administer, and fund the plans of the small business. We are here to support you in this lucrative marketplace.

For additional information, contact the pension sales department at 888-909-6504.



hot idea! 

## EGTRRA and PPA 2006 CREATE ANOTHER NEW PENSION PROSPECTING APPROACH !

**Here is one more pension idea from the new tax law. Of all the new ideas, this may be the quickest and most efficient method of arousing interest and ultimately rolling over large amounts of commissionable assets into ANICO products.**

Historically, doctor's offices (as one example) have installed combination Money Purchase and Profit Sharing plans so the doctor could receive the maximum 25% of salary contribution into the plans. Under the new tax law, **this combination of plans is no longer necessary.** It is now possible to receive the maximum deduction with the profit sharing plan alone. The business deduction available is a maximum of 25% of the sum of the salaries of all participants. Any one individual can receive a maximum annual addition of 100% of salary up to a dollar limit of \$45,000! (in 2007)

So **there is no need for the business to continue both plans.** Two plans create double the administrative fees and government filings. In addition, the Money Purchase contribution is a "fixed" contribution with no flexibility. If the entire contribution is allocated to the Profit Sharing plan, as can now be done, there is complete flexibility in the total contribution each year. The Profit Sharing plan has no requirement to make a contribution regardless of business earnings as does the Money Purchase plan.

**THE PROSPECTING IDEA:** Prospect for businesses currently utilizing this "dual plan" approach and let them know it is no longer necessary. How can you help them? Very simply, you can show the business owners how they can:

- **Save fees by having one plan.** They can merge the Money Purchase plan into the Profit Sharing plan. If we take over the plan administration, it's a sure bet our fees will be MUCH LOWER than they are used to paying, and there will only be fees for one plan. This will make them very happy!
- **Add flexibility to the contribution level.** With all funds going into the Profit Sharing plan, there is complete flexibility each year as to the level of contribution made by the business. This will make them very happy!
- **Enjoy more investment options.** In most cases, our product with 40 investment choices will allow more options and flexibility than the funding vehicles they are now in. This will make them very happy!
- **Create new allocation formulas benefiting the owners.** In many cases, we will be able to redesign the plan (usually introducing the New Comparability approach) and produce much larger allocations to the owners with the same or less total outlay from the business. This will make them VERY happy!

You will be very happy too, when the existing assets of BOTH PLANS are merged into the Profit Sharing plan and transferred to ANICO and we take over the administration and funding of the Profit Sharing plan!

For more information, contact pension sales at 888-909-6504.

## PENSION DISCUSSION QUESTIONS FOR PROSPECTS AND CPA'S

### IF PROSPECT DOESN'T HAVE A PENSION OR PROFIT SHARING PLAN:

- ◆ When was the last time you explored the possibilities of a pension or profit sharing plan?
- ◆ Have you looked at a plan lately – after all the recent tax law changes?
- ◆ Have you ever heard of a cross-tested profit sharing plan?
- ◆ Have you ever heard of a 412(i) defined benefit plan?
- ◆ Did you know you may be able to get a very large share of your company's plan contribution now after the recent tax law changes?
- ◆ You wouldn't object to a free look at what a plan could do for you and your business, would you?
- ◆ Do you realize it may be costing you money NOT HAVING a plan?
- ◆ Which of your employees would you most like to benefit?
- ◆ All I need is a census and I can supply a free pension plan feasibility analysis for you.

### IF PROSPECT HAS AN EXISTING PENSION OR PROFIT SHARING PLAN:

- ◆ What kind of plan do you have?
- ◆ How long have you had this plan?
- ◆ Who is doing the administration?
- ◆ Are you satisfied with the administration – and the administrative fees?
- ◆ Have you reviewed your plan to see if you are getting your fair share of the contribution after all of the recent tax law changes?
- ◆ Did you know that all plans now have to be amended and restated to incorporate all the new tax law changes affecting pension and profit sharing plans?
- ◆ Are you satisfied with your plan investments?
- ◆ What do you like best about your current plan?
- ◆ What do you like least about your plan?

### QUESTIONS FOR A CPA:

- ◆ Do you work with small business owners and closely held corporations?
- ◆ How many employees does your average client have?
- ◆ Do most of your clients have a qualified plan? If not, why not?
- ◆ If so, what kind of plan do most of them have?
- ◆ Do you currently have a plan?
- ◆ Are you're clients getting the most out of their plans?
- ◆ Are you familiar with the large deductions available in 412(i) Defined Benefit plans?
- ◆ Are you familiar with New Comparability profit sharing plans that could potentially give a very large share of the contribution to the business owner?
- ◆ Do you have a sample client on which you would like a free feasibility study?
- ◆ Are you aware of the increased deductions, new portability, and increased flexibility after passage of the new tax law in 2006?

## THE PALLADIUM GROUP ANNUITY

American National Insurance Company presents the annuity contract designed exclusively for qualified pension and profit sharing plans. There is no initial charge against the contributions on this contract and no charge against the assets. This contract assures the return OF your money and a return ON your money by guaranteeing a minimum interest rate for the life of the contract.

In addition to the minimum guarantees, current market interest rates are declared by American National and are guaranteed for annual intervals from the date of each contribution.

The contract also assures there will never be any charge to the account for benefit payments made to plan participants. There is no penalty for withdrawal of funds for a plan participant's retirement, death, disability, or termination of employment.

The plan participants are depending on their retirement funds. The Palladium Group Annuity with its dependable returns can add protection and stability to other more aggressive plan investments.

## HIGHLIGHTS OF IMPORTANT PLAN PROVISIONS

- ◆ \$5,000 minimum initial contribution
- ◆ \$1,000,000 maximum initial contribution without prior approval
- ◆ \$100 minimum for subsequent contributions
- ◆ 3% minimum interest guarantee for the life of the contract
- ◆ current interest rates guaranteed for one year intervals from the date of the contribution
- ◆ withdrawal charges from the date of issue of the contract as a percentage of the withdrawal\*:

Year	1	2	3	4	5	6	7	8	9+
%	10	9	8	7	6	5	4	2	0

\*withdrawal charges are waived for plan distributions due to a participant's death, disability, retirement, or termination of employment

# WealthQuest III

## GROUP VARIABLE ANNUITY

### (BRIEF SUMMARY)

Issued to Trustees of Qualified Pension, Profit Sharing and 401(k) Plans

Maximum Contribution  
Without Prior Approval                      \$1,000,000

M&E Charges                                      0.35% annually

Asset Based Fee Banded asset-based fees equal to a percentage of the Account value according to the following schedule:

<u>Account Value</u>	<u>Annual Fee*</u>
\$0 - \$500,000	.90%
\$500,000.01 - \$1,000,000	.70%
\$1,000,000.01 - \$3,000,000	.50%
\$3,000,000.01 - \$5,000,000	.25%
Over \$5,000,000	0%
Surrender Charge	7%, 7%, 6%, 5%, 4%, 3%, 2%, 0% (From date of contract)

Waiver of Surrender Charges for Distributions to Plan Participants for Death, Disability, Retirement; termination of Employment and Plan Loans.

Number of Investment Options	45
Minimum Account Allocations	None
Transfers	Free and unlimited

Policy Form GUVAP03

The foregoing is neither a contract nor an offer to contract, but is a general description of benefits available under a policy providing the features outlined. The exact provisions, terms, and conditions of the contract are set forth in detail in such policy as may be issued. This material is authorized for distribution to prospective investors only when preceded or accompanied by a current prospectus for the *WealthQuest® III Group Unallocated Variable Annuity* and for the underlying investment options. Policy Form GUVAP03

WealthQuest® III is:

- Not insured by the FDIC or any other agency of the United States or the depository institution
- Not a deposit or other obligation of the depository institution and is not guaranteed by the depository institution
- Subject to investment risks, including possible loss of value

\*The asset-based fee will be calculated and charged monthly, based on an average account value for the month using daily total account values.

# 401(k) INTERNET ACCESS

- ◆ *SAMPLE THE PROCESS*
- ◆ *VIEW THE ACCOUNTS*

**STEP 1:** go to website [www.anico.com](http://www.anico.com) and click on the [401\(k\) button](#)

**STEP 2:** click on “[access your account](#)”

**STEP 3:** input User ID as the *Social Security Number* [111111111](#) and use the *password* [1111](#)

**This sample site allows you to access all account information screens available to participants in ANICO administered 401(k) plans. Each participant can access these screens on any computer 24 hours a day 7 days a week. The participant can view his or her daily account values at any time, transfer funds among the account offerings, and verify contribution levels as well as viewing other vital information relating to the account.**

**P.S. For those without computer access: A toll free telephone access number accomplishes the same result by giving automated account information on the phone 24 hours a day 7 days a week, and also allows transferring funds among the accounts.**

***Alternatively, you can input the web address of [401k.anico.com](http://401k.anico.com) and you will be at “access your account” screen. From here, you can proceed with inputting the “1’s” as the user ID and password as indicated above.***

## IRS Limits on Benefits and Compensation

This is a summary of the various limitation adjustments that affect qualified plans for Plan Years 2004 through 2007:

<u>Description:</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	
Qualified Plan Compensation Limit	\$225,000	\$220,000	\$210,000	\$205,000	
401(k) Plan					
Maximum elective deferral limit	15,500	15,000	14,000	13,000	
Catch-up limit (age 50 and over)	5,000	5,000	4,000	3,000	
Defined Contribution					
Section 415 annual addition limit	45,000	44,000	42,000	41,000	
Defined Benefit					
Section 415 annual benefit limit	180,000	175,000	170,000	165,000	
Highly Compensated Definition					
Compensation test	100,000 *	100,000 *	95,000 *	90,000 *	
Social Security Taxable Wage Base	97,000	94,200	90,000	87,900	
DC Integration Levels (Permitted Disparity)					
5.7%	at or below . . .	19,499	18,839	17,999	17,579
4.3%	from . . .	19,500 to 78,000	18,840 to 75,360	18,000 to 72,000	17,580 to 70,320
5.4%	from . . .	78,001 to 97,499	75,361 to 74,199	72,001 to 86,999	70,321 to 87,899
5.7%	at the TWB of . . .	97,500	94,200	90,000	87,900

All of the above figures relate to the plan years beginning in the respective years, except for the 401(k) deferral limits which refer to the 401(k) deferral limits which refer to the calendar years and the defined benefit limit which is effective for any plan year ending in the respective years.

\* Applies to the preceding year's compensation; may be limited to 20% of the top paid employees by plan election; 5% owners in any year are deemed to be highly compensated.

**American National Insurance Company  
Pension Administration Fee  
Schedule B**

**(For Plans With 25 or Fewer Lives)**

**Plan Installation:**

Installation.....\$ 200

**Annual Administration:**

Defined Benefit.....\$ 700

Money Purchase.....\$ 600

Profit Sharing.....\$ 600

    New Comparability Profit Sharing.....\$ 100

    401(k) add.....\$ 500

        If no ADP / ACP testing, subtract.....\$ 300

    Roth 401k Deferral, add.....\$ 200

Owner only plan, subtract.....\$100

Outside Assets.....Subject to additional fee

**American National Insurance Company  
Pension Administration Fees**

**Schedule B**

**(For Plans with 26 to 300 lives)**

**Plan Installation**

Installation .....\$ 300

**ANNUAL ADMINISTRATION**

Defined Benefit.....\$ 500

Money Purchase.....\$ 400

Profit Sharing.....\$ 400

    New Comparability, add.....\$100

    401(k) add.....\$ 500

        If no ADP/ACP testing, subtract.....\$ 300

    Roth 401(k) Deferral, add.....\$ 200

Owner only plan, subtract.....\$100

All plans, add per eligible participant.....\$10

Outside Assets.....Subject to additional fee



## Independent Marketing Internet Website

URL: <http://img.anicoweb.com>

Scroll Down to **PENSION AREA** which leads you to:

### Related Links (Right Side if the Page)

- [Virtual Forms](#) – product applications and forms
- [401\(k\) Website](#) – instructions to look at a sample 401(k) participant account
- [Online Proposal Request](#) – census information can be completed and submitted on-line
- [Faxable Proposal Request](#) – census can be printed to complete and fax or mail to the Pension department
- [ProNvest Investment Advice](#) – information about offering participant investment advice via our affiliation with ProNvest
- [ProNvest Site](#) – direct link to ProNvest Website

### Tabs (On the top of the page)

- [Marketing and Concepts](#) – CLIPS, overview of types of plans available, articles on technical issues
- [Products](#) – CLIPS, brochures, specs, state approval lists on fixed and variable products
- [Installation](#) – a checklist for writing a new plan along with adoption agreements, enrollment forms, etc.
- [Administration](#) – overview of the pension sales and administration departments along with specific plan administration forms
- [Contacts](#) – phone numbers for the Pension Sales Department

**Note: For life and annuity applications select Virtual Forms from the Quick Links section on the Home Page**