

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

**Big Opportunities in Small Business Retirement Plans**  
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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%
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	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>
<b>AGE 45</b>	<b>\$105,238</b>	<b>\$128,685</b>
<b>AGE 50</b>	<b>\$152,040</b>	<b>\$189,020</b>
<b>AGE 55</b>	<b>\$246,669</b>	<b>\$315,738</b>
<b>AGE 60</b>	<b>\$266,313</b>	<b>\$367,559</b>

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:  
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ARTICLE PUBLISHED  
IN THE OCTOBER 15, 2001 ISSUE OF  
THE NATIONAL UNDERWRITER MAGAZINE