

Introduction to Retirement Plans

Lafayette Life
Insurance
Company
Innovative Retirement
Plans for Small
Business



Introduction to Lafayette Life



Thank you for your interest in Lafayette Life. We invite you to learn more about our company and how our products and services can further enhance your business.

The Lafayette Life Insurance Company offers a broad range of group and individual life insurance, annuities, and pension plans and services in 48 states and the District of Columbia. Headquartered in Lafayette, Ind., Lafayette Life Insurance Company has been in business since 1905.

Our company ranks 114th of all life insurance companies in the United States in terms of assets. Our ratings include:

- A (Excellent) with A.M. Best
- A by Fitch Claims Paying Ability
- A (Strong) by Standard & Poor's

The Lafayette Life Insurance Company is rated "A" (Excellent) by the A.M. Best Company for its financial condition and operating performance. This rating indicates that the company has a strong ability to meet its obligations to policyowners over a long period of time. Fitch Ratings has rated the claims paying ability of Lafayette Life "A." The rating reflects Lafayette Life's consistent operating profitability, conservative investment portfolio, low operating leverage and strong management team. Standard & Poor's has rated Lafayette Life "A" for strong financial security characteristics.

Our company prides itself on three basic principles:

- (1) solid and unquestioned financial strength;
- (2) unsurpassed attention and service to policyowners; and
- (3) close relationships with field representatives.

These principles, combined with our attractive product line and unique market niches, help distinguish us from our competitors. One niche where we are successful is the small business retirement plans arena. Through innovative plan design, a variety of plan funding options and professional pension administration services, we are well known in the pension industry.


We provide a variety of defined benefit and defined contribution plans, including age-weighted and new comparability profit sharing plans and the increasingly popular 412(i) defined benefit pension plan. To find out more about how a qualified retirement plan can benefit your business, please contact your Lafayette Life representative today.

We look forward to working with you!



A Qualified Success: Lafayette Life's Qualified Markets Department

Professional Staff with Technical Expertise



At Lafayette Life Insurance Company, we specialize in providing qualified plan services to small businesses. Currently we provide pension administration services to more than 1,000 clients. Our services encompass the plan design process, installation and annual administration. Our professional staff maintains membership in the American Society of Pension Actuaries, ASPA, and the National Institute of Pension Administrators, NIPA. Their technical expertise is recognized with the attainment of the professional designations of Qualified Pension Administrator, (QPA), Qualified 401(k) Administrator, (QKA) and Accredited Pension Administrator, (APA).

The term “qualified” retirement plan refers to the special tax treatment granted by the Internal Revenue Code. There are substantial tax benefits under current law to a company that sponsors a qualified plan that generally include the following:

- The company is allowed a current deduction for the plan contributions resulting in reduced tax liability (deductions are subject to Internal Revenue Code limitations)
- The employee pays no current income tax on money contributed by the company, except for minimal PS-58 costs
- Earnings of the plan accumulate on an income tax-deferred basis.

The employer also receives non-tax benefits such as the attraction and retention of employees.

Qualified retirement plans are classified as either a defined contribution plan or a defined benefit plan. In a defined contribution plan the participant's retirement benefit is based upon the amount contributed plus the gain or loss to the account. The contribution is not fixed nor does the plan promise or guarantee a specific benefit. A defined benefit plan is funded for a specific retirement benefit. The participant's benefit is not affected by gain or loss. Each year the participant earns or accrues a portion of the retirement benefit.

Lafayette Life provides services pertaining to both defined contribution and defined benefit retirement plans. Please contact us to find out more about the retirement plan services of Lafayette Life Insurance Company.

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Pension-related services provided by Lafayette Life are subject to the terms and conditions of the Administrative Services Agreement

Pension and Product Services

Lafayette Life is committed to Pensions!

The following are some of the pension and product services available from Lafayette Life.

Proposal Services

- Retirement plan analysis
- Defined Contribution formulas including:
 - Cross-tested profit sharing plans (New Comparability & Age-Weighted)
 - Traditional 401(k) and Safe Harbor 401(k)
 - Money Purchase
 - Target Benefit
- Defined Benefit formulas:
 - Traditional
 - 412(i)



Here to serve you!

Plan Installation Services

- Document services
- Preparation of Summary Plan Descriptions
- Determination Letter preparation

Administration Services

- Annual valuation report
- Preparation of federal filing reports (Form 5500 and related schedules)
- Preparation of annual participant statements
- Calculation of vested benefits
- Calculation of plan distributions
- Technical Support for plan compliance issues

Product Services

- Plan Funding Options:
 - Traditional life insurance products
 - Fixed annuities, including equity indexed deferred annuities
- Face amount starting at \$1,000
- Life insurance for 403(b) plans

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Introduction to Retirement Plans

Retirement planning assumes that each of us will retire from the work force and will need a financial plan to provide sufficient income during retirement. This retirement income is generated from three primary sources: personal savings, employer-sponsored pension plans, and government-sponsored plans such as Social Security. We will focus on qualified¹, employer-sponsored plans which can be separated into two broad categories: defined benefit and defined contribution plans.

Defined Contribution Plans

A defined contribution plan provides retirement benefits based on the total amount contributed on behalf of its employees, including earnings and forfeitures from participants. The annual contribution is usually based on a percentage of each participant's compensation to a plan maximum of 25 percent of compensation. The amount available at retirement depends on actual plan earnings and the length of time until a participant's retirement. In defined contribution plans, the annual contribution is variable; the retirement benefits vary based on several factors; and the employee bears the investment risk. Younger employees tend to be favored because they have a longer time until retirement in which to accumulate retirement savings and investment earnings.

Types of Defined Contribution Plans

Money Purchase Pension Plan

The employer contributes a specified, fixed percentage of each participant's annual salary to the plan each year, to a maximum of 25 percent of compensation. This annual contribution is required. With the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), money purchase plans have become obsolete and many are being converted to profit sharing plans.

Target Benefit Pension Plan

This plan type is a combination of a defined benefit and a defined contribution plan. The retirement benefits are determined as if the plan were a defined benefit plan. However, the annual contribution percentage and dollar amount limitations apply to the contributions as if it were a defined contribution plan.

Traditional Profit Sharing Plan

The employer contributes a discretionary percentage of each participant's annual salary to the plan, to a plan maximum of 25 percent of compensation. In a profit sharing plan, the contribution level is selected by the plan trustee(s) each year. Annual contributions are not required, provided that contributions are made on a substantial and recurring basis, as defined by the Internal Revenue Service.

¹Qualified retirement plans are IRS approved retirement plans which have significant tax benefits.

Age-Weighted Profit Sharing Plan

Employer contributions are allocated based on the ages of participants. This plan favors older workers, assuming they have a shorter time to accumulate savings for retirement. Equivalent retirement benefits must be provided to all participants at normal retirement age.

New Comparability Profit Sharing Plans

Employer contributions are allocated by percentage to nondiscriminatory classification groups stated in the plan (e.g. owners, all other employees.) Each classification group receives a percentage of the employer contribution, usually with one classification group receiving a higher percentage than the other classification groups. The plan must pass nondiscrimination testing to ensure that non-highly paid employees are receiving an equitable contribution in comparison to the highly paid employees.

401(k) Profit Sharing Plans

Some profit sharing plans have a 401(k) feature that allows eligible participants to defer a portion of their compensation into a retirement account. The money is contributed to the 401(k) plan on behalf of the participant instead of being paid as taxable compensation. In addition to the employee elective deferrals (also called salary deferrals), the employer may make profit sharing contributions to the plan according to the formula specified. The employer may also choose to make a matching contribution to the plan to reward employees who are deferring income to the 401(k) portion of the plan.

Safe Harbor 401(k) Profit Sharing Plans

A 401(k) profit sharing plan may also have a safe harbor feature. This plan provision requires the employer to contribute a minimum of three percent of compensation to all employees or to provide a 100 percent match of the first three percent of compensation plus 50 percent of the next two percent of compensation for employees who defer. Both types of safe harbor contributions are immediately 100 percent vested. When a safe harbor contribution is made and appropriate notice is provided to eligible participants, the discrimination testing for salary deferrals is deemed to pass, effectively allowing the highly paid employees to defer up to the individual salary reduction maximum.

Qualified, Employer Sponsored Plans



Defined Benefit Plans

A defined benefit plan provides a predetermined, level amount of benefit payments for the life of the participant or the life of the participant and spouse. The monthly retirement benefit is calculated using a formula specified in the plan. The employer contribution is required annually and is typically higher than a defined contribution plan, depending on the employer's demographics. The employer bears the investment risk. Older employees tend to be favored because they have a shorter time to fund for their retirement.

Traditional Defined Benefit Plan

The employer makes an annual, tax-deductible contribution to the plan. Tax deductions are subject to Internal Revenue Code limitations. This amount is actuarially determined each year and is usually a formula based on a combination of compensation and years of service. The plan is funded entirely by the employer and annual contributions are required.

412(i) Defined Benefit Plan

The 412(i) plan, also known as a fully insured plan, offers retirement benefits with insurance products that provide a guaranteed minimum rate of interest. The plan may be funded using life insurance and annuity products or annuities only. A 412(i) plan has less flexibility than a traditional defined benefit plan, but this enables the plan to provide the maximum tax deduction available under any qualified plan. Policies must remain in force, requiring annual premium payments. Participant loans are not permitted. Plan funding is expected on the first day of each plan year.



Administrative Services and Fees

In addition to offering products for retirement plan funding, Lafayette Life provides installation and administrative services for retirement plans. These available services are outlined generally below. Our fees are competitive with and are often lower than fees charged by other administrative service providers. Our services and fees are subject to change and are subject to the terms and conditions of our Administrative Services Agreement.

Plan Installation Services and Fees

The following services are available:

- Prepare plan design proposal
- Prepare Adoption Agreement, Summary Plan Description and Trustee Manual
- Provide the Plan and Trust Document
- Obtain the Trust Identification Number for the plan
- Assist in the application for a Letter of Determination from the Internal Revenue Service, if applicable
- Assist in the preparation of the initial PBGC-1 form filing, if applicable

Installation Services, Base Fee	\$200
For the following plan types, add	
Age-Weighted or New Comparability Profit Sharing Plan.....	\$400
401(k) Plan	\$250
Takeover of an Existing Plan	\$500

Annual Administrative Services and Fees

The Administration services include:

- Annual plan valuation
- Assist in preparation of Form 5500 and related schedules
- Assist in preparation of the Summary Annual Report
- Assist in preparation of the PBGC-1 form, if applicable.
- Calculate the vested benefit or account balance for terminated participants.
- Prepare amendments and restatements to the Trust Document.



Administrative Services, Base Fees

Defined Contribution Plan (Profit Sharing, 401(k), Money Purchase, etc.)	\$550
Defined Benefit Plan (Traditional DB, 412(i) Plan)	\$750

Additional Fees (to be added to Base Fees)

If not all assets held by Lafayette Life	\$150
Age-Weighted or New Comparability Plan Formula	\$150
401(k) Plan	\$250
Certification of PBGC-1 form	\$75
Each Plan Employee	\$10
One Participant Plan (credit)	(\$100)
Plan Amendment or Restatement	\$150
Participant Loan – Initial setup per loan	\$50
Annual charge per loan	\$25
Individual investment direction for non-salary deferral accounts (charge per participant)	\$25
Special Handling Design and/or Specifications	\$100
Defined Contribution Plan Termination	\$1000
Defined Benefit Plan Termination	\$750
PBGC Plan Termination	\$750
Defined Benefit Individual Participant Termination Calculations	\$100
Hourly Rate	\$150

All fees quoted are effective June 1, 2004, and are subject to change without notice. Contact your Lafayette Life representative for the current fee schedule.

Examples

The following sample plans are estimates of fees:

**412(i) Defined Benefit Plan
Professional Service Corporation - (PBGC filing is not applicable)
Two Participants**

Installation Fee (first year only)	\$200
Annual Administrative Fee:	
Base Fee	\$750
Each plan employee (2 x \$10)	<u>\$ 20</u>
Total	\$770

**Profit Sharing Plan with New Comparability Formula
Ten Participants**

Installation Fee (first year only)	\$600
Annual Administration Fee:	
Base fee	\$550
New Comparability formula	\$150
Each plan employee (10 x \$10)	<u>\$100</u>
Total*	\$800

*assumes all plan assets are at Lafayette Life

Tax Credit

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) allows an annual tax credit of 50 percent of administrative cost with a maximum credit of \$500 each year for the first three years of a new plan. Any amount that is claimed as a tax credit is not eligible for a deduction. Contact your tax advisor to find out if your retirement plan meets the criteria for this credit:

- (1) The employer has fewer than 100 employees.
- (2) At least one non-highly compensated employee is participating.
- (3) The sponsoring employer has not had a qualified plan within the last three years.



How to Request a Retirement Plan Analysis

To find out more about designing a pension or profit sharing plan to fit your company's retirement goals, follow these simple steps:

1. Contact your Lafayette Life representative to provide data for an analysis of your company's retirement plan options.
2. Review the plan design proposals and funding options with your Lafayette Life representative.
3. Select the retirement plan design and funding options that meet your retirement goals.

Plan Installation

1. Sign the preliminary plan documents provided by Lafayette Life.
2. Lafayette Life sets up your plan, including the preparation of the plan document.
3. Finalize your plan funding decisions with your Lafayette Life representative and complete the appropriate applications and disclosures.
4. Lafayette Life forwards your trustee manual for review with your representative.

Employer's Role and Responsibilities²

The employer plays a key role in the successful administration of the company's qualified plan. Listed below is a general description of the employer's responsibilities:

1. Act as plan administrator and fiduciary.
2. Obtain an adequate fidelity bond to protect plan.
3. Record employee information including names, dates of birth, dates of hire, hours worked, compensation and dates of termination. Record plan asset activities including investment changes, gains and losses, distribution payments, etc.
4. Be familiar with key plan provisions such as eligibility, employee terminations, distributions, beneficiary changes, tax withholding, etc.
5. Enroll new participants as required by the plan.
6. Maintain beneficiary elections of participants.
7. Make timely deposits of employer and employee contributions.
8. Process distributions to terminated and retired participants as specified by the plan.
9. For 401(k) plans, monitor participation level of non-highly compensated employees to ensure that highly compensated employees do not overcontribute salary deferrals.
10. Provide required notices to participants including 1099-R, the Summary Plan Description (SPD) and the Summary Annual Report (SAR.)
11. Review plan annually and amend plan as needed.



²A more complete listing of the employer's role and responsibilities is included in the Plan Administrator's Guide found in the Trustee's Manual. The manual will be provided by Lafayette Life during plan setup.

Qualified Markets

Thank you for taking the opportunity to learn more about Lafayette Life and our Qualified Markets department. Please contact your Lafayette Life representative to find out how we can help you meet your retirement planning needs.

We look forward to working with you!

Sincerely,

THE LAFAYETTE LIFE INSURANCE COMPANY

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Lafayette Life Insurance Company only provides services in connection to pension plans as outlined in a separate Administrative Services Agreement and issues life insurance and annuity products that may be used as funding options. Lafayette Life does not serve as a plan administrator, nor does it or its representatives provide legal or tax advice. This introductory booklet is designed to provide general information only. This booklet is not to be relied upon for legal or tax advice. Your personal or legal tax advisors should always be consulted.





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