

### “Next Level” Profit Sharing

A Profit Sharing Plan is often the Plan of choice for many small-business owners and professional practices because most contributions are made with complete discretion. These tax-deductible contributions may be reduced or suspended in any year that the employer chooses. We can show you how to take your Plan to the “Next Level.”

Each year, the sponsoring employer may decide to allocate up to 25 percent of the “eligible payroll” into the Plan. Eligible payroll is the total of the eligible wages of the participants who are eligible to receive a contribution that year.

### Three “Next Level” Tools

A retirement plan can’t discriminate in favor of “highly compensated employees” in either contributions or benefits. This, however, does not mean that everybody has to receive the same contribution.

When designing a “Next Level” Profit Sharing Plan, we offer three tools that can be used to craft the Plan that best meets your goals and budget. These include:

1. **Integration**
2. **Age-Weighting**
3. **Cross-Tested**

### Integration

All employers already sponsor at least one retirement plan, jointly funded by you and your employees. It’s called the Old Age & Survivor Benefit of Social Security. Government rules let you take this into account by allowing you to “integrate” your qualified retirement Plan with your Social Security contributions. Using integration often helps offset some of the employee cost.

Security Administrators, Inc. (SAI), a wholly owned subsidiary of Security Mutual Life Insurance Company of New York, has flexibility in designing a properly integrated Plan for you. We can begin integrating a Plan at 20% of the taxable wage base, so that if your salary is not above the wage base, you can still benefit from its use. This Plan design is useful when the owner is the same age as, or younger, than the employees, but earns a higher salary. Better yet, integration is “pre-approved” for use in our prototype documents, so it costs nothing to add it to your Plan.

### Age-Weighting

A Profit Sharing Plan cannot discriminate in either contributions or benefits. Therefore, giving everybody 20% of pay is clearly nondiscriminatory. However, giving each participant the same theoretical retirement benefit is also nondiscriminatory. The reasoning is simple: with fewer years until retirement, older participants require larger contributions than younger participants to get to the same benefit level.

A review of the design chart shows that this Plan is very favorable to the owner. However, in operation, it is a little cumbersome. Older employees get higher contributions, period. Employees in the same job, getting similar wages, will get very different contributions unless they are the same age. For these reasons, this Plan is less popular than our next option.

	Age	Salary	Traditional		Integrated		Age - Weighted		Super Comp.	
			Employer Cont.	% of Pay	Employer Cont.	% of Pay	Employer Cont.	% of Pay	Employer Cont.	% of Pay
<b>Owner (P)</b>	<b>55</b>	<b>\$290,000</b>	<b>\$58,000</b>	<b>20%</b>	<b>\$58,000</b>	<b>20%</b>	<b>\$58,000</b>	<b>20%</b>	<b>\$58,000</b>	<b>20%</b>
<b>Key (P)</b>	<b>40</b>	<b>130,000</b>	<b>26,000</b>	<b>20%</b>	<b>22,239</b>	<b>17.1%</b>	<b>7,648</b>	<b>5.9%</b>	<b>6,500</b>	<b>5%</b>
Employee 1	30	40,000	8,000	20%	6,843	17%	1,565	3.9%	2,000	5%
Employee 2	45	35,000	7,000	20%	5,987	17%	3,096	8.8%	1,750	5%
Employee 3	25	25,000	5,000	20%	4,277	17%	750	3%	1,250	5%
<b>Totals</b>					<b>\$97,346</b>		<b>\$71,059</b>		<b>\$69,500</b>	
<b>% to Preferred Participants (P)</b>				<b>81%</b>		<b>82.3%</b>		<b>92.7%</b>		<b>92.6%</b>

# “Next Level” Profit Sharing Plans

## Cross Tested

This “Next Level” design offers a method to allocate significantly different contributions to specific classes of employees. It combines both the integration and age-weighted rules, but uses weighted averages to determine the contribution. In the right situation, this method allows the owners and other highly compensated employees to receive greater allocations than others.

This technique works best whenever the highly compensated employees are at least 10 years older than the average rank-and-file employee. However, it might not benefit the owner if he or she is the same age or younger than the average employee’s age.

This method is highly customizable and can be matched to your firm or business quite easily. For example, groups can be created for different profit centers, subsidiaries, sister companies or, most commonly, by job class—in short, any clearly identifiable group.

Common Class Definitions		
1. Owners	1. Sr. Partners	1. Sr. Executives
2. All Other Employees	2. Jr. Partners	2. Managers
	3. All Other Employees	3. Other Employees of Subsidiary A
		4. Other Employees of Subsidiary A

SAI has a “volume submitter” plan document that is cost effective and makes it easy for you to secure a favorable opinion from the IRS for its use. Alternatively the Plan Trustees can be solely responsible for directing the Plan’s investments.

## Investment Options

Plan contributions are placed into a tax-qualified trust. Allowable investment options are selected by the Plan Trustees. Each eligible participant may be given the ability to direct the investment of his or her own account by selecting from among the allowable options. Alternatively the Plan Trustees can be solely responsible for directing the investment of the entire pool of Plan assets.

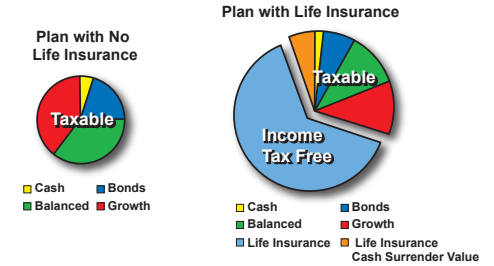
Our profit sharing program allows substantial freedom. Plan investments may include mutual funds, annuity contracts, guaranteed interest contracts, stocks, bonds and other qualified investment options.

Unlike most Profit Sharing Plans offered through a mutual fund company, our program automatically includes a special optional benefit that will allow participants to purchase cash value life insurance to protect their family should the participants not live to retirement. It may be a wise part of your asset allocation strategy.

When life insurance is purchased inside the Plan, the death benefit in excess of the cash surrender value will be paid to the participant’s named beneficiary free of ordinary income tax. Each year while the policy is in the Plan, the participant pays income tax on the cost of the life insurance protection.

When the participant separates from service or retires, the life insurance policy must be removed from the Plan. There are several options available to participants, each with its own advantages and tax consequences.

## Enhanced Survivor Benefits



## Plan Administration

Talk with a Security Mutual life insurance advisor or SAI for important implementation dates and deadlines.

SAI can provide everything you need for a competitive price. Administrative fees are generally deductible to your business.

## Let Us Know How We Can Help You



The hypothetical example shown within is for illustrative purposes only and does not guarantee or predict the results of any particular product. In preparing the example, we did not take into account the investment objectives, financial situation or particular needs of a specific person. The depicted strategy may not be suitable or appropriate to your individual circumstances. Accordingly, it does not constitute a personal recommendation to you.

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