



412(e)(3) FULLY INSURED PLAN



Maximum Tax
Deductions with
Guaranteed
Retirement Income



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412(e)(3) Fully Insured Plan

- Guaranteed retirement benefits
- Ideal for small business owners
- Can maximize tax deductions



What Is a Qualified Plan?

- Provides retirement, disability, and/or death benefits
- Must meet specific IRC requirements
- Qualifies for tax-favored treatment
 - deductible contributions
 - tax-deferred growth
- Plan cannot discriminate



What Is a 412(e)(3) Plan?

- A defined benefit qualified retirement plan
- Funded exclusively with guaranteed insurance products
- Exempt from minimum funding requirements
- Contributions based on present value of future benefits
- Life insurance provides family protection



Traditional Defined Benefit vs. 412(e)(3) Fully Insured Plan

Traditional Plan

Limited early contributions

May become over/underfunded

Quarterly contribution deadlines

412(e)(3) Plan

Larger contributions in
early years

Always fully funded

Funding extended to tax
filing deadline

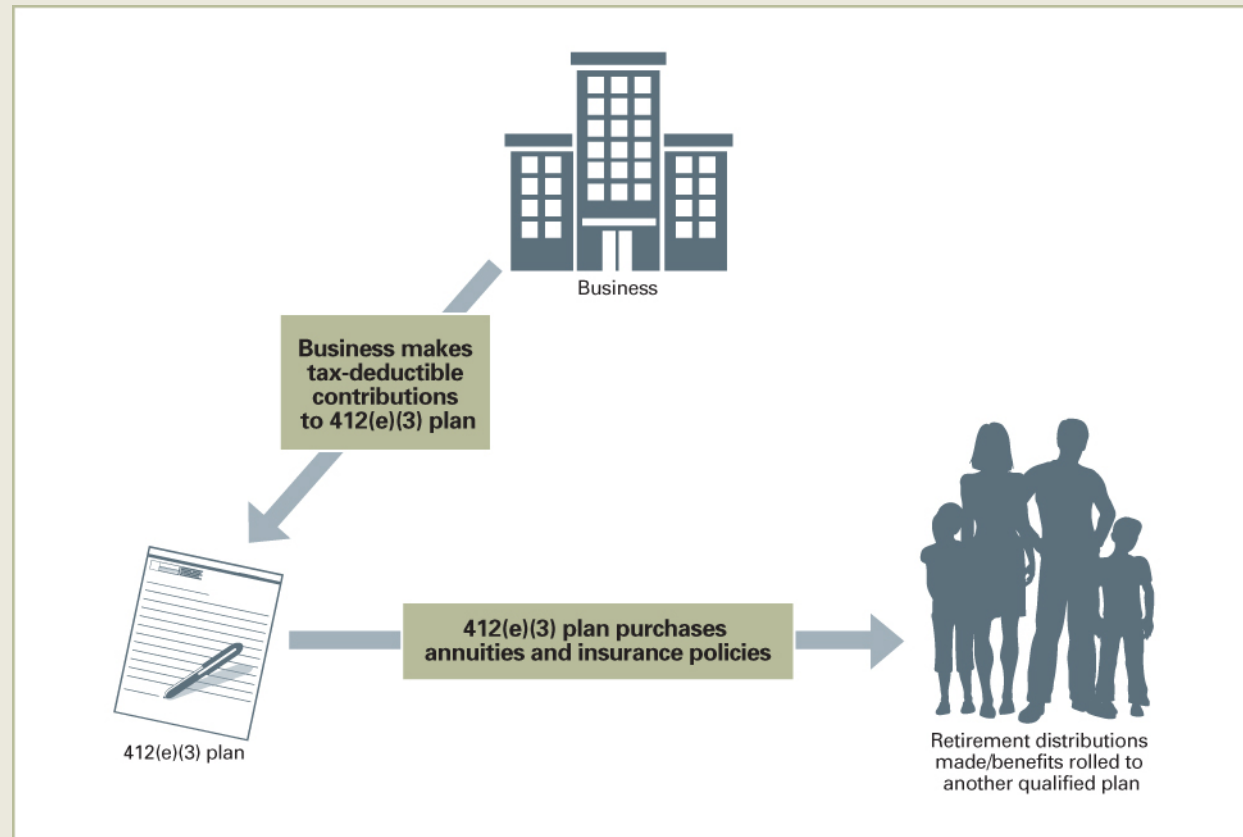


How a 412(e)(3) Plan Works

- Funded exclusively with guaranteed insurance contracts
- Contributions tax-deductible to employer
- Contributions pay annuity and life insurance premiums
- Plan assets grow federal income tax–deferred
- Death benefit received in excess of cash value may be received income tax–free



How a 412(e)(3) Plan Works





Hypothetical Example: S Corporation— John Barrister

Year	W-2 Wages	K-1 Profit	412(e)(3) Contribution	Net Taxable Income
1	\$50,000	\$100,000	\$0	\$150,000
2	50,000	100,000	0	150,000
3	50,000	100,000	0	150,000
4	50,000	100,000	100,000	50,000
5	50,000	100,000	98,000	52,000
6	50,000	100,000	95,000	55,000

Calculations provided by The Heritage Group, LLC



Hypothetical Example: Tax Consulting Firm

- Highly profitable
- Consistent earnings
- Owned by husband and wife
- One salaried employee
- Large number of independent contractors
(not eligible to participate in the plan)



Hypothetical Example: Tax Consulting Firm

	Age	Compensation	Annuity Deposit	Insurance Deposit	Total
Husband	41	\$150,000	\$74,825	\$73,316	\$148,141
Wife	37	150,000	60,174	59,208	119,382
Employee	22	15,000	2,967	3,388	6,355
Totals		315,000	137,966	135,912	273,878

*Calculations provided by Heritage Group, LLC, are presented herein for illustrative purposes only.
Based on retirement age of 62.*



The 412(e)(3) Team

- Financial professional
- Third-party administrator
- Professional advisors



The Role of Your Financial Professional

- Helps you define retirement objectives
- Gathers employee census
- Discusses contribution levels
- Discusses with you and your professional advisors the appropriateness of 412(e)(3) plan



The Role of the Third-Party Administrator

- Develops suitable plan proposal
- Helps prepare plan documents
- Annual plan administration
 - calculates plan contributions
 - performs incidental benefit tests
 - prepares required reports
 - handles distributions



The Role of Your Professional Advisors

- Help you develop realistic objectives
- Prepare projections and conduct analyses
- Help draft plan documents
- Provide tax and legal advice



Benefits of a 412(e)(3) Plan

- Maximize contributions and deductions
- Limit complexities of traditional defined benefit plans
- Minimize market risk
- Benefits can increase over time



Who Can Benefit from a 412(e)(3) Plan?

- Highly paid business owners and professionals
- Small, closely held businesses
- Depending on employee characteristics, some employers with larger employee groups
- Businesses exhibiting financial stability
- Owners preferring security over uncertainty