



15 CPE NASBA approved credits available

SUMMER EDITION

REGISTER NOW FOR THE 5th Annual 412(i) Defined Benefit Pension Plan Summit

Each summer, leading retirement planning experts come together for two days of education and networking on 412(i) retirement plans.

This year's interactive forum will feature industry leaders, financial advisors, attorneys, actuaries and administrators.

This summit is designed for retirement professionals who are interested in or actively sell, market, support or influence 412(i) defined benefit plans.

Our mission is to set the industry standard for excellence in plan design, marketing support and plan administration for qualified and non-qualified retirement programs.

This year's summit will be located in **Chicago** at the Embassy Suites Hotel O'Hare
August 1st – 3rd 2007.

For more information:

Contact Priscilla Habig or Peter Pearce at
(360) 756-0776
or visit us online at

<http://www.412isummit.com>

For accommodation contact:

Embassy Suites Hotel O'Hare
5500 N. River Road
Rosemont, IL 60018
Phone: (847) 928-7625
Fax: (847) 928-7679

FREE PLAN DESIGNS!

We have streamlined our proposal request/data fact finder. As always we provide a preliminary free plan design. To get your copy of our new form please email:

peter@ebdgonline.com

EXECUTIVE BENEFITS DESIGN GROUP Wins TRIVIA BEE!

The Whatcom Literacy Council held its 11th Annual Trivia Bee on April 13, 2007. More than 30 corporate teams competed including WAL*MART, Barnes & Noble, Key Bank and us!



Nick Paleveda—CEO Executive Benefits
Marjorie Ewing—General Manager
Ken Jennings—All time Jeopardy! Champion



The teams invented clever names—The “Wal-Martians”, the Barnes & Noble “Bookaneers” and the EBDG “Pension Professors”. We walked away with the 1st place trophy. The three person team included Nick Paleveda CEO - Executive Benefits, Ken Jennings of Jeopardy! Fame, and Drew Giovanis. The event was a huge success hauling in over \$30,000 to support adult literacy programs.

The Pension Protection Act of 2006

The Pension Protection Act of 2006 made sweeping changes to qualified retirement plans. It substantially revamped the rules for traditional defined benefit pension plans, clarified rules for cash balance plans, created new safe harbor rules for 401(k) plans with automatic enrollment features and required employers that held employees captive in company stock to provide diversification out of company stock.

A very subtle PPA provision modifies the rules governing 401(k) hardship distributions to permit plans to treat certain beneficiaries the same way as a participant's spouse or dependents in determining if a hardship had occurred.

In IRS Notice 2007-7, the IRS announced that any individual designated as a primary beneficiary in a 401(k) plan will be treated as a spouse or dependent for purposes of the hardship distribution rules.

In general, hardship distributions are permitted for paying medical expenses, tuition, funeral expenses or casualty losses, and for purchasing a home.

Under this rule, a primary beneficiary is defined as any individual named as a beneficiary under a plan who has an unconditional right to all or a portion of a participant's account balance upon the participant's death.

For example, the employee can request a hardship distribution to pay for medical expenses for a domestic or civil partner. This new rule provides access to retirement funds that did not

previously exist in many circumstances.

Obviously, a parent, sibling or other individuals also can benefit under this law. However, the same general tax rules will apply.

Thus, an employee will be subject to income tax on the withdrawal, plus a 10% excise tax if the distribution is taken prior to age 59 1/2.

Prior to PPA, an IRA rollover upon death could only be effectuated by a spouse.

In addition to the rules for hardship distributions, the PPA enacted new rules which permit a trustee-to-trustee transfer to occur for any portion of an eligible retirement plan or IRA distribution to a designated beneficiary who is a non-spouse beneficiary.

The transfer is treated as a direct rollover of an eligible rollover distribution under the tax code. Once again, although more complex in structure and administration, if an employee designates a child, parent or domestic or civil union partner as a beneficiary in the event of death, such individuals will be eligible to receive rollover distributions from qualified retirement plans and to generally defer taxation on such direct trustee-to-trustee transfers. To delay taxation, the IRA must be established and identified by the name of the deceased employee and the beneficiary. For example, a sibling, child or domestic partner could transfer funds after the death of an individual to an IRA designated as “Tom Smith, as beneficiary of James Jones.”

If this action is taken, and no actual distribution occurs to the individual, but rather the funds are transferred directly from the qualified plan to the IRA, the amount rolled over is not included in the gross income of the designated beneficiary in the year of the distribution.

In addition, an individual may designate a trust as the beneficiary of their retirement benefits. In this event, a trustee-to-trustee transfer could occur to the trust, which may thereafter allow distributions to specified domestic partners, parents, children, siblings, other relatives or friends.

The new rules under the PPA clearly provide



greater flexibility for individuals to obtain hardship distributions and to designate beneficiaries who may rollover funds from qualified retirement plans.

The new rollover changes will require benefit professionals to work closely with trust and estate attorneys representing employees to ensure that an employee's desired estate plans are properly effectuated.

This IRS guidance is good news for all employees.

The PPA has made substantial advances in providing employees with access to their retirement benefits in times of financial difficulties and in assisting employees to properly implement the objectives of their estate plans.

A discussion of the minimum distribution rules and the manner in which distributions must thereafter be made from the IRA is beyond the scope of this article.

A SIMPLE INTRODUCTION TO 412(i) PLANS

RETIREMENT & TAX PLANNING USING 412(i) PLANS

The 412(i) Retirement Plan—a simplified defined benefit pension plan allowing for immediate tax deductions up to \$300,000 annually.

What is a little-known, underused technique to establish a pension plan that offers the following benefits?

- Your plan is relatively inexpensive to establish and maintain.
- You receive immediate income tax deductions
- Your plan assets grow income tax-deferred.
- Your plan contributions are not subject to the Alternative Minimum Tax (AMT)

- Your plan provides retirement, disability and income-replacement-on-death-benefits.
- Your plan assets are creditor protected.
- Your plan benefits are fully guaranteed.
- You are permitted to make large plan contributions, even if you are already retired or over the age of 70.
- Your C or S Corp, or LLC can adopt the plan.
- 90% of your plan contributions can benefit you as the employer.

Q - What is a 412(i) Plan?

A - It is a simplified, guaranteed defined benefit pension plan established under Section 412(i) of the Internal Revenue Code. It is a plan that is used with investment grade life insurance and annuity contracts. The plan is governed by the Employee Retirement and Income Security Act of 1974 (ERISA), the federal act governing the funding, vesting, administration and termination of private pension plans.

Q - How do recent changes in 412(i) law benefit me?

A - Recent changes in the law have made 412(i) plans more popular and more powerful as an estate, tax and retirement planning tool. Section 415(e) of the Internal Revenue Code, which limited the effectiveness of 412(i) plans was repealed, and with this repeal a 412(i) plan may now be funded with sufficient assets to provide a retirement benefit of up to \$180,000 annually for the rest of your life. This makes it a far more powerful technique than IRAs, 401(k)s, defined benefit or profit sharing plans for a business owner to plan aggressively for retirement while enjoying large immediate income tax deductions.

Q - What are the benefits of the plan for me and my company?

A - The plan is appropriate for an owner of a small business or a larger company with a



company-sponsored 401(k) who would like to take advantage of tax deductions granted to defined benefit pension plans. The plan is inexpensive to establish and maintain. Contributions to the plan are income tax-deductible to the company. The plan assets grow income tax-deferred and taxes are paid only when benefits are distributed at retirement.

For each dollar you contribute to a 412(i) plan, the government funds thirty to forty cents for your retirement through the available tax deduction.

While growing income-tax deferred, your plan assets are protected from the claims of your creditors. In addition, the government permits you to contribute substantially more money to your 412(i) plan than to an IRA, 401(k), defined benefit or profit-sharing plan. Moreover, your plan benefits are fully guaranteed by the life insurance and annuity contract(s) owned by your plan.

Q - How is the 412(i) plan designed?

A - By determining how much annual income you will need at retirement and calculating the annual contributions which will be required to reach that goal. The U.S. government allows you to plan for substantial annual retirement income of up to \$180,000 annually and permits a tax deduction for contributions which are made to the plan to meet this retirement goal.

Q - How does the plan affect my employees?

A - Since the plan is governed by ERISA, your plan must allow employees to participate in the plan. Employee benefits are determined by a variety of factors. For example:

1. Employees must be over 21 to participate;
2. Employees must stay with the company for a period of 6 years (depending on the vesting schedule) to become 100% vested in their benefits;

3. Employees may have most of their benefits paid by Social Security;
4. Employees must work over 1000 hours each year; and
5. Employees must not benefit from a union plan.

Where the business entity is a family C or S Corp, FLP, or LLC, "employees" are likely to be you and your children.

Q - How do I fund my 412(i) Plan?

A - Your plan is typically funded with approximately 50% retirement annuities and 50% investment grade life insurance contracts. These investment assets make security and simplicity the hallmarks of the 412(i) plan. As an example, investing in an annuity allows you to receive a guaranteed 3% interest on your account (no loss) or an insurance company return of whoever is the greater. This arrangement protects both your downside and your equity upside. The insurance contract guarantees a 3% interest rate or a current rate, generally 3%-8%, whichever is the greater. The insurance contract also provides a death benefit that guarantees the surviving spouse an income for life. While your retirement benefits are calculated on the guaranteed part of the contract, the historic return on indexed annuities generally exceeds that guaranteed rate, so your returns should exceed the guarantee.

Q - How does the 412(i) plan provide retirement benefits?

A - The cash surrender value of the insurance/annuity contracts can be converted into an income stream of up to \$180,000 per year for life for each participant.

Q - How does the 412(i) plan provide income replacement upon a participant's death?



A - The fully-funded plan can provide your surviving spouse or children up to \$15,000 per month for the rest of their lives.

Q - Can I receive an income tax deduction in excess of my salary?

A - Yes, you can. Generally, all types of compensation are used in calculating the formula for determining benefits in a 412(i) plan. This includes: base salary; bonuses; vacation pay; overtime; and any other compensation that meets your definition as the employer. In addition, amounts that you contribute to a 401(k) plan, a section 125 (“cafeteria”) plan or a Section 127 (education assistance) plan can be used in determining the total allowable contribution you may make to your 412(i) plan.

Q - Are the assets in my plan protected from lawsuits and creditors?

A - Yes, your plan is creditor-protected, a properly drafted 412(i) plan is an ERISA defined benefit pension plan. As such, its assets are fully immune from the claims of creditors.

Q - Can I amend my plan?

A - Yes. If a plan amendment will result in significant reduction in the rate of future benefit accruals, the plan administrator must notify all participants, certain beneficiaries. The required written notice is often referred to as the 204(h) notice. For example, if your plan changes the definition of compensation in a way that would lower benefits, 204(h) notice is required.

Q - Can I terminate my plan?

A - As plan sponsor, you may terminate your plan as long as the plan document provides for termination. In general, a plan must be fully funded and there must be a bona fide business reason for the plan termination, including: a

Fair warning to advisors, clients and prospective clients:

The 412(i) plan is a legal pension trust investment that must comply with the IRS code as well as with all ERISA and Department of Labor regulations governing these plans. The plan document itself as well as the implementation and administration of the plan must be in strict compliance with these rules. Even where a valid plan document and an IRS tax determination letter are in place, lack of proper legal implementation may result in the disallowance of the deduction and invalidate the plan. It is important that you consult with a competent tax attorney in establishing your 412(i) plan.

Executive Benefits Design Group, Bellingham, Washington will implement and administer your 412(i) plan.

Q - How do I get started?

To get started designing a 412(i) plan which is appropriate for your circumstances and goals, please call us on 360—756 0776 for details or visit our website at

www.ebdgonline.com

to download the “Request for a Proposal”, fill it in electronically and email it back to—
priscilla@ebdgonline.com

General

Our firm provides marketing, actuarial and compliance support to Financial Advisors and their clients. We established the Executive Benefits Design Group (EBDG) to provide sophisticated services in retirement plans nationwide through the internet. We offer you the knowledge and skills of our team of nationally recognized tax attorneys and actuaries.

Classifieds

The 412(i) Defined Benefit Pension Plan Book!

By Nicholas Paleveda, MBA, J.D., LL.M

The new 412(i) Book will provide quick reliable guidance on:

412(i) Defined Benefit Pension Plans

Comparison with 401(k), SEP's SIMPLE's and DB Plans.

Sample Legal Document

Sample Plan Summary Plan Description

Revenue Rulings on 412(i)

Private Letter Rulings on 412(i)

2004 Rulings on "Abusive Plans"

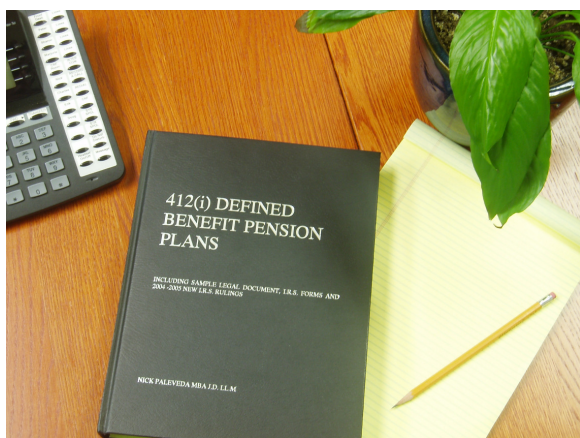
2005 Rulings on "Abusive Plans"

404(a) 7 Issues

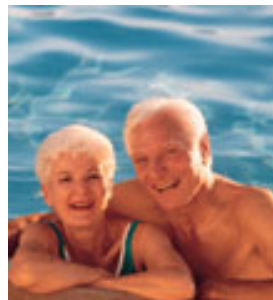
Are you a Fiduciary or "inadvertent" Fiduciary?

Available in hardcover – visit:

www.the412ibook.com



LIFE is short



Retire early!

Life is too short NOT to plan early for retirement. Let us show you which plan could work best for you.

We realize that no one plan can work for every situation, so we offer a wide range of plans that can be customized to suit specific needs of your company.

412(i) plans are defined benefit retirement plans. These plans are not subject to the minimum funding standards of ERISA and it is not required to engage an actuary to certify contribution requirements. 412(i) plans provide the highest level of benefit security for individual participants and for the business owner. This means a 412(i) plan can be a great asset to those who own smaller companies with high incomes and wish to retire in a relatively short time period.

401(k) plans are defined contribution plans where employees can elect to defer a portion of their annual compensation for deposit in the employee's account. Employer contributions may take the form of a matching contribution based on what the employee defers, or they can be based on a formula, or even both. Because 401(k) plans are profit sharing plans, the employer is not required to make annual contributions.



NEW FACES:

1



2



3



4

Welcome to our Junior Associates:

1. David Koenig - Mathematics Major with business interests
2. Dustin Ruskell - Economic student with Financial Advisor aspirations
3. Zachary Pullin - Marketing & Communications Major
4. Melissa Lawler - Finance & Math Major

EBDG offers qualified plan services through the internet using low-cost, high-quality video conferences and telephone conferences. EBDG has developed skilled actuarial services that support financial advisors interested in retirement planning nationwide. EBDG serves as third party administrator to these retirement plans nationwide.

We are experienced and credentialed in the tax, legal, actuarial and accounting professions. Our Chief Actuary, Charles Gramp, EA, MSPA, FCA has 35 years of experience in pension consulting and the life insurance industry. John Bremer, CPA, MBA, EA helped develop an actuarial practice during his 26 years in public accounting. Nick Paleveda, MBA, JD, LL.M is the Chief Executive Officer. He is licensed to practice before the Federal Tax Court and is a member of the Florida Bar Association and American Bar Association. He is the author of the "412(i) Defined Benefit Pension Plans" (See *Classifieds*)

We would welcome an opportunity to present our qualifications in more detail and to learn how we might help your practice.

Please call us on (360) 756 - 0776 to set up a conference call at your convenience.

Visit our websites

- www.ebdgonline.com
- www.412isummit.com
- www.2006PPA.com
- www.the412ibook.com

Smile!



"I'm not financially prepared to live to 100.
Can I get a second opinion?"

Comments

Comments about the newsletter or articles for the Fall Edition contact:

nick@ebdgonline.com

OneAmerica 500 Festival Mini-Marathon—2007

Our very own Marjorie Ewing (General Manager) participated in this annual Half Marathon event staged in Indianapolis on May 5, 2007 this year.

Sporting #14751 she went out there with the best of them.

A total of 29,213 participants finished the race with Marjorie coming in at #20,757 with a time of 2:50:30

The first male to finish was Joseph Chirlee in 1:04:04

The first female to finish was Janet Cherobon in 1:16:03

Well done Marjorie - we're proud of you!



Marjorie with her horse Waylon.