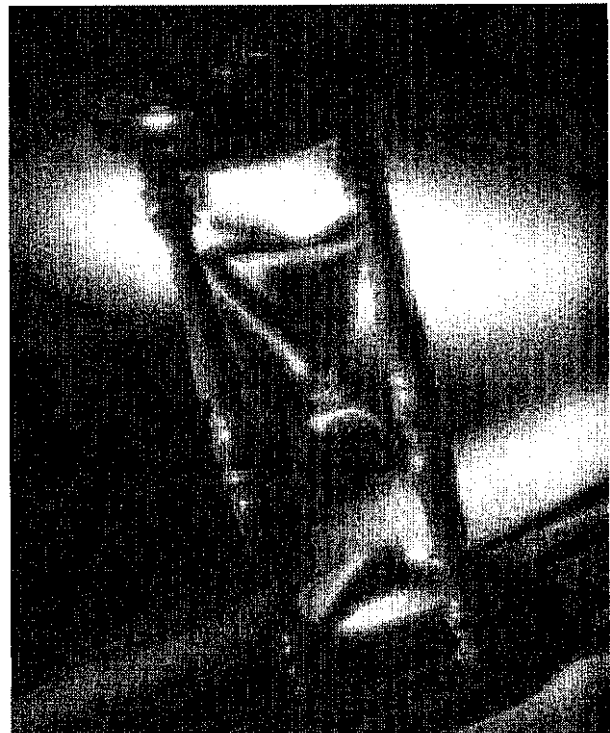


# Introduction to Retirement Plans

Lafayette Life  
Insurance  
Company  
Small Business  
Retirement Plans



## Introduction to Lafayette Life



**T**hank 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 among the top 150 of all life insurance companies in the United States in terms of life insurance in force. In terms of assets, Lafayette Life ranks among the top 25 percent of all U.S. life insurers. 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 have been particularly successful has been in 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 401(k) 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*

**A**t 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. The retirement plan marketing kit contains information on product, plan design and current legislative topics.

Please contact us to find out more about the retirement plan services of Lafayette Life Insurance Company.

**Cheryl A. Jorgenson**, QPA, QKA, APA  
Assistant Vice President – Qualified Markets

**Keith C. Baumgarn**, QPA, CLU, ChFC, FLMI, CRC  
Sales Vice President

**Candace Larson**, QPA, QKA, APA  
Pension Sales Consultant

**Dana E. Blozis**, FLMI, ACS  
Pension Sales Consultant

*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
- Preparation of proposals -- no fee charged
- 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)
- Plan installation services
- Document services
- Preparation of Summary Plan Descriptions
- Determination Letter preparation
- Competitive administration fees



*Here to serve you!*

#### 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
- Guaranteed issue starting at five lives
- Guaranteed issue \$10,000 per participant up to a maximum of \$150,000 per participant
- Simplified issue from three to nineteen lives
- Life insurance for 403(b) plans
- Two year "Honeymoon" Surrender

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## Introduction to Retirement Plans

**R**etirement 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 qualified<sup>1</sup>, 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.

<sup>1</sup>Qualified 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.

## Types of Defined Benefit Plans

### 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

During the plan installation process, the following services are available:

- Prepare a proposed plan design to help meet your retirement planning needs
- Supply a Trust Document, sample Board Resolution to Adopt a Retirement Plan, Summary Plan Description, Adoption Agreement and Trustee Manual
- Apply for a trust identification number for the plan
- Prepare an actuarial valuation or allocation of accounts for the initial plan year
- Assist in the application for a Letter of Determination from the Internal Revenue Service, if applicable
- Assist in the preparation of the initial year's 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 ..... \$150

### Annual Administrative Services and Fees

Once the plan has been adopted and installed, the following services are available:

- Provide an annual review of the plan, upon receipt of completed census and asset data.
- Assist in preparing the Form 5500 and related schedules based on the information provided.
- Assist in preparing the Summary Annual Report (SAR) to be distributed to all plan participants.
- Assist in preparing a PBGC-1 form, if applicable.
- Calculate the vested benefit or vested account balance for terminated participants.
- Prepare amendments and restatements to the Trust Document.
- Other additional services agreed to in writing by both parties, subject to an hourly rate of \$75



### Administrative Services, Base Fees

Defined Contribution Plan (Profit Sharing, 401(k), Money Purchase, etc.) .....	\$550
Defined Benefit Plan (Traditional DB, 412(i) Plan) .....	\$650

### Additional Fees (to be added to Base Fees)

If not all assets held by Lafayette Life .....	\$150
Age-Weighted or New Comparability Plan .....	\$150
If 401(k)/401(m) testing is required .....	\$250
Multiple vesting schedules for safe harbor 401(k) .....	\$250
Certification of PBGC-1 form .....	\$50
Each Plan Employee .....	\$10
Plan Amendment or Restatement (excluding GUST restatement) .....	\$100
GUST restatement .....	\$325
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
One Participant Plan (credit) .....	(\$100)

*All fees quoted are effective Jan. 1, 2001, and are subject to change without notice. Contact your Lafayette Life representative for the current fee schedule.*

As a part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), a 50 percent tax credit is available to qualifying employers for administrative fees paid for new plans started after Dec. 31, 2001. Companies with fewer than 100 employees and that have never had a qualified plan before may be eligible. Contact your tax advisor to find out if your retirement plan qualifies for this credit.

## Examples

The following examples are estimates of fees for hypothetical plans:

### Two-person 412(i) Defined Benefit Plan for a doctor's office (PBGC Filing N/A)

Installation Fee (first year only) .....	<u>\$200</u>
Administrative Fees (base fee) .....	\$650
Each plan employee charge (2 x \$10) .....	<u>\$ 20</u>
Total due (first year installation and administration) .....	<u>\$870</u>

### 10-person New Comparability Profit Sharing Plan

Installation Fee (first year only – base fee) .....	\$200
Installation Fee (additional charge – new comparability plan) .....	<u>\$400</u>
Administrative Fees (base fee) .....	\$550
Charge for new comparability plan .....	\$150
Each plan employee charge (10 x \$10) .....	<u>\$100</u>
Total due (first year installation and administration) .....	<u>\$1,400</u>





## QUALIFIED MARKETS PROPOSAL REQUEST FORM

Review the following questions with your client and submit along with the completed Proposal Request Form (page 2) to Lafayette Life's Qualified Markets Department. With these tools, we can assist you and the client in the design of a retirement plan that will help meet the client's needs.

Answer Yes or No to the following questions:

Does the client...

- ☐ Need a long-term savings program to shelter income and save for retirement?
- ☐ Need a larger tax deduction?
- ☐ Own a profitable business (corp., S-corp., partnership, sole proprietorship, LLC, LLP)?
- ☐ Have cash flow to fund a pension benefit with required annual contributions?
- ☐ Have cash flow to fund discretionary contributions?
- ☐ Want to maximize benefits for owners and key employees?
- ☐ Need life insurance to provide a pre-retirement death benefit with tax-deductible premiums?
- ☐ Have an existing retirement plan? If yes, provide details.
- ☐ If the client currently has a plan, does it meet the employer's retirement objectives?

Employer's Retirement Plan Objectives:

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Additional Comments\Information:

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## PROPOSAL REQUEST FORM

The data below will provide the information necessary to generate a plan proposal. Please complete all information.

Employer Name: \_\_\_\_\_

Employer Address: \_\_\_\_\_

Business Entity: ☐ C-Corp. (W2) ☐ S-Corp. (W2) ☐ Partnership (K-1) ☐ Sole Proprietor (net Sched. C)  
☐ LLP ☐ LLC (if LLC, taxed as a ☐ partnership or a ☐ corporation?)

Fiscal Year: \_\_\_\_\_ Desired annual contribution: \$ \_\_\_\_\_ Anticipated retirement age of owner: \_\_\_\_\_

Plan Design Proposals ☐ Traditional Defined Benefit Plan ☐ 412(i) Defined Benefit Plan  
☐ Profit Sharing ☐ 401(k) Profit Sharing Plan

Maximize owner's allocation? ☐ Yes ☐ No

Does the employer now have or ever had a retirement plan? ☐ Yes ☐ No If yes, provide details.  
(including a SEP, SIMPLE or any other retirement plan)

Do the owners have ownership interests in other businesses? ☐ Yes ☐ No If yes, provide details.

Is the employer a controlled group or affiliated service group? ☐ Yes ☐ No If yes, provide details.

Does the employer use leased employees, union employees or independent contractors? ☐ Yes ☐ No If yes, indicate below.

Details: \_\_\_\_\_

Name (mark U if union, L if leased, or IC if independent contractor)	Date of Birth	Date of Hire	Annual Salary	Ownership % or Family Relationship to Owner	Job Title (complete for all requests)	Hours worked (if < 1,000 hours)

**Representative to be contacted:** (Note: we will only contact the individual listed below.)

Lafayette Life Affiliation (Contracted agent, Uncontracted agent, IMO, other) \_\_\_\_\_

Agent/Agency Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_ E-mail: \_\_\_\_\_

Date proposal needed: \_\_\_\_\_

**Fax your completed proposal requests to a Pension Sales Consultant at Lafayette Life:**

Gary Veverka (Regions 1-4,8,10) Fax 765-477-3888, Phone 800-443-8793, ext 3448; or

Candace Larson, (Regions 5-7), Fax: 765-477-3890, Phone: 800-443-8793 ext. 3425