

BENEFIT PLANNING INC.

1st Quarter, 2003

Inside This Issue:

- = > **New 2003 Limits**
- = > **412(i) Fully Insured Defined Benefit Plans**
- = > **New Comparability regs are now applicable**
- = > **401(k) Plans: "Owner-employee Only" plans on the rise**
- = > **GUST Update**
- = > **Tax Credit Reminders**
- = > **New Fax Number
310.821.1529**

4640 ADMIRALTY WAY, 9th Floor
MARINA DEL REY, CALIFORNIA
90292
TELEPHONE: (310) 577-1444
FACSIMILE: (310) 821-1529

www.BenPlanInc.com

Your Qualified Plan:

Updates, News, and Ideas

New Limits: Focus Now To Best Implement

The IRS has released annual limits that impact Qualified Plans.

Type of Limitation	2003	2002
401(k) Elective Deferrals	\$12,000	\$11,000
401(k) Catch up (age 50 and older)	\$2,000	\$1,000
Max Defined Benefit	\$160,000	\$160,000
Max Defined Contribution	\$40,000	\$40,000
Annual Compensation Limit	\$200,000	\$200,000
Highly Compensated (\$80,000 index)	\$90,000	\$90,000
Income Subject to Social Security Tax	\$87,000	\$84,900

The 401(k) Deferral limit has increased to \$12,000, with the possibility for an additional \$2,000 in "catch up" contribution for participants age 50 and up.

The Defined Contribution limit did not change from \$40,000. This limit had been fixed at \$30,000 for many years, and will now increase in \$1,000 increments under EGTRRA, even though 2003 did not see an increase.

The best way to use the "Highly Compensated Employee" index is to plan annual compensation packages with this limit in mind. It may make sense to offer deferred compensation to keep an employee below the \$90,000 threshold.

Benefit Planning, Inc. can assist you in designing your plan to best take advantage of all these applicable limits.

412(i) Fully Insured Defined Benefit Pension Plans.

Increased marketing efforts of insurance companies has heightened awareness of using insurance to fund a Defined Benefit Pension Plan.

Benefit Planning, Inc. is pleased to offer 412(i) plans. We have kept abreast of all the various proposals and know what will survive IRS scrutiny.

Who should have a 412(i) Plan? Clients who would like an even higher contribution to their Defined Benefit plan, or who would like to fund a Defined Benefit plan completely in three or so years. Understanding that a 412(i) "plan" is merely a funding method is key to determining if it is a good fit for the client.

“New Comparability” Final Regulations

The new rules apply for plan years that began in 2002. Only as 2002 calculations are completed will it become clear how the rules impact each “new comp” plan.

Many of our clients won’t miss a beat... Targeted employees can now receive \$40,000 (up from \$35,000), which often offsets the contribution increase to 5% of compensation for the “rank and file”.

Other clients are using 401(k) and matching contributions to keep the 3% contribution to the rank and file, with owners still receiving \$40,000.

As we do your annual compliance work, we will make sure that you are presented with the best options available for you.

E-Update

Now is the time to send your employee data electronically. You save by using your existing computerized employee data, and in turn you save Benefit Planning from having to re-input that same data.

“Owner-employee Only” 401(k) Plans

We have let you know that EGTRRA presents opportunities that could allow higher contributions for our “one-person” plans.

For example, an actress with a \$200,000 salary has her husband as an assistant. If the husband were to receive a \$40,000 salary, there could be a \$80,000 contribution made to the plan for the two owner-employees. Often this is a better alternative than the use of a Defined Benefit Plan.

GUST Restatement – (yet another) Extension

The IRS extended the GUST deadline to September 30, 2003. We expect this to be the final deadline. The extension will be helpful to our Defined Benefit Plan clients as EGTRRA analysis can be done with the GUST re-documentation.

GUST is the set of laws passed since 1994 that now require the re-documentation of all retirement plans. Most Benefit Planning, Inc. 401(k) and Profit Sharing plans have been restated already.

Tax Credits

We have written our 401(k) clients to remind that certain employees that participate in a 401(k) plan will receive a tax credit.

An important new credit applies to Employers with non-owner-employees that started a qualified plan in 2002.

We will be sending details later to affected clients.

Did you know?... According to a recent study of 1,177 Americans between the ages of 38 and 56, 36% of baby boomers are not saving for retirement, with 70% saying they intend to rely on Social Security

More, 56% expecting to work beyond the age of 65 and 33% expect to fund retirement through part-time employment

All this reinforces how extremely important your retirement plan is as both a tax shelter and an employee benefit.
