

BENEFIT PLANNING INC.

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Your Qualified Plan:

Updates, News, and Ideas

Now's the Time to Redesign!

Business management specialists repeat the mantra "Plan, plan, plan". It's not too early to take a moment to consider how your Retirement Plan is working within your overall planning goals for this year.

In our last few newsletters (available online at www.BenefitPlanning.LA) we have discussed many aspects of how to take advantage of the new laws.

- Consolidating or converting Money Purchase Pension Plans
- Tiered Allocations to maximize owner benefits
- Impact of increased deduction limits
- Adding 401(k) features, even to "one man" plans
- Increasing deductions: Section 125 Plans as a profit center
- Defined Benefit Plans: new limits, even for those who thought they were "fully funded"
- Fully insured (Section 412(i)) Defined Benefit Plans

And these are not the only tools we can use. The point is, Qualified Plans are extremely flexible, powerful tools to accomplish a host of goals.

So, if any of these ideas intrigue you, or if you just want a "wellness check", give us a call.

California and EGTRRA Conformity

Recently, in a welcome development, California joined in conforming our state law to new federal law. This means that all the increased limits and deductions we've read about apply on the state tax level as well.

As we've written before, there is a mandatory Model Amendment required by the new law.

Therefore, in July we will be sending the EGTRRA amendment to our Money Purchase, Profit Sharing and 401(k) Plans for signature.

For Defined Benefit Plans, we will be customizing the amendment for each plan later as part of our GUST restatement and redesign. This is optimal because of the actuarial nature of the EGTRRA Amendment.

Tax Credits: For You and Your Employees

A Tax Credit For You

Beginning in 2002, small businesses (100 employees or fewer) who start a new plan will be eligible for an annual tax credit of \$500 for the first three years of the plan.

To be eligible, you must not have had a plan for the last three years and cover at least one non-Highly Compensated Employee.

The credit is calculated as 50% of up to \$1,000 in administrative or startup fees.

All this means "pennies from heaven" for our clients who have started their first plan in 2002.

Next, a Tax Credit For Your Employees

Of all the tax deductions and credits in the new law, the change predicted to cost the government the most is the tax credit for 401(k) deferrals to lower and middle-class taxpayers.

The way the credit works is like this: your employee makes a

401(k) contribution of say, \$1,000 for 2002. When he files his taxes, he will receive a \$500 tax credit, reducing his tax (thereby increasing his cash refund).

This credit can be a boon to employers seeking to increase participation in their 401(k) Plan. Increased participation by employees eligible for the credit will help a number of ways:

- Helps pass non-discrimination tests
- Potentially reduce refunds to HCEs
- Potentially reduce required contributions to maximize key personnel

We have previously sent you a sample *Notice* to help communicate this to your employees. If you would like another copy or other help in getting the word out, just give us a call.

National 401k Day September 3, 2002

401k Day is an excellent opportunity for 401(k) Sponsors to remind your

employees of the many benefits of your 401k plan.

401k Day provides an opportunity to focus on the "good news" of long range retirement planning through your 401k plan. Your participation in this day will focus on the plan's success and not the temporary set-backs of some investment markets.

If you would like our assistance to whole heartedly participate in the National 401k Day, just give us a call.

E-Update

Wouldn't you prefer to give us data on a spreadsheet? Please take a moment to review your current ways of working with us. Are you taking full advantage of all our e-data options? Check out www.BenefitPlanning.LA or call us to learn more.

Did you know...

That according to the IRS only **30% of employers with fewer than 50 employees have a retirement plan?** You should be proud of the plan you have.

