Retirement Planning and the Business Life-Cycle

GUARDIAN®

Selecting What's Right

As a business owner, you know that providing a retirement plan as an employee benefit is essential to keeping your employees happy and productive. It is also a way for you to convert some of your hard earned time and money in the business to financial security for yourself and your family, when the time comes to leave the business. So what's the right type of plan?

A Team Approach

The first thing that you need to do is work with your Guardian representative to determine your goals and objectives. Where you and your company are, in the business or personal life cycle, is a starting point for designing a retirement plan. This always comes first. Your Guardian representative will conduct an extensive session to discover personal and business facts and circumstances so that the most suitable recommendations can be made in designing the appropriate retirement plan. The plan will be designed based upon your goals and objectives for yourself and your business, and the budget allowed for this.

Remember, no plan is static. Plans must be monitored from year to year to ensure that the plan that was initially implemented is still appropriate. As your financial objectives change over time, so may the plan. This monitoring provides assurance that the plan is continually meeting your needs from both a business and personal planning perspective.

This brochure primarily highlights tax-advantaged plans. Fortunately, the IRS regulations provide for some flexibility in designing these plans. They, however, may not discriminate as to benefits or contributions.

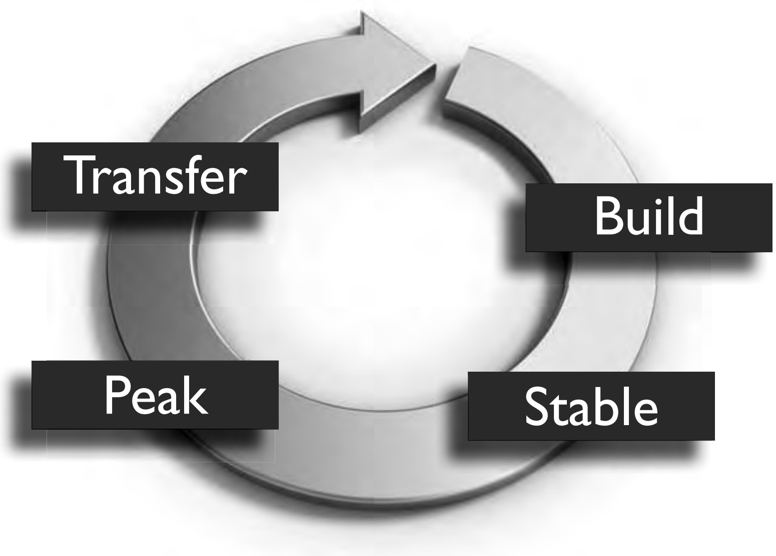
Key Considerations

As you work with your Guardian representative, you should consider some of these questions:

- ***Who will the plan be designed primarily for?***
- ***Will there be any age and/or service requirements?***
- ***Are there classifications of employees that are to be excluded?***
- ***Is there a specific retirement income goal?***
- ***What is budgeted for contributions to the plan?***
- ***Do you wish to take advantage of pre-tax, after-tax, and catch-up deferrals?***
- ***How important is flexibility of contributions?***
- ***Is investment stability and guarantees important?***
- ***Are there any individuals whom the owner wishes to favor, if possible?***
- ***How important is it that short-term employees leave with some benefit?***
- ***Do you have life insurance needs and if so, would you like to use tax-deductible business dollars to fund that insurance?***
- ***Are you an owner of any other business ventures?***

BUSINESS LIFE-CYCLE

Where does your business fit in?



As you work through plan design, there will undoubtedly be other questions to answer and consider. Rest assured that your Guardian representative is supported by many Home Office professionals who are retirement planning experts, including enrolled actuaries and pension experts.

The following is a brief summary of some of the common types of retirement plans to help you make an informed decision on what's most appropriate for you and your business.

BUSINESS LIFE-CYCLE

Retirement Plan Summary Chart

	BUILD	STABLE	PEAK	TRANSFER
Characteristics	- May be a new entity, spin-off, or existing business with a change in management and direction - Low or negative cash flow	- Increased earnings - Stable cash flow - Solidifying management team and identifying key employees - Confident about financial future but ongoing concern about retirement	- Approaching or early retirement - Stable cash flow - Excess cash - Focus on saving, investing and debt elimination	- Full or partial retirement - Business owner with desire to sell or transfer business interest - May start another business or work a "bridge job" - Gifting to children or grandchildren
Needs	- Determine proper form of doing business (choice of entity) - Manage cash flow - Stabilize business - Participate in a retirement plan	- Manage (reduce) business taxes - Allow owners & employees to save for retirement in a tax-deferred manner - Programs to help attract and retain employees	- Contribute and catch up on full amount to a deferral plan - Begin planning for income needs during retirement	- Business transition strategies: - When to sell and to whom? - How will sale be structured? - How will purchase price be paid? - Retirement income for owner - Survivor income for family
Risks	- Protection from loss of income due to death or disability	- Protection from loss of income due to death or disability of the owner - Protection from loss of income due to death, disability or departure of key employees	- Loss of income while still in high income earning years - Inability to accumulate funds necessary for retirement due to disability or illness - Business succession	- Outliving income - Providing for surviving spouse
Possible Retirement Solutions and Other Planning Considerations	- Traditional IRA - ROTH IRA - SEP IRA - SIMPLE IRA - Solo 401(k) Plan	- SEP IRA - SIMPLE IRA - 403(b) Plan - Eligible 457(b) Plan - Solo 401(k) - 401(k)/Profit Sharing Plan - Safe Harbor 401(k) Plan - Traditional Defined Benefit Plan - Cash Balance Plan - Fully Insured Plan - Business succession planning and implementation - Life insurance for estate settlement costs and survivor income needs - Life insurance for wealth replacement or estate equalization - Life insurance to fund buy-sell agreements	- 403(b) Plan - Eligible 457(b) Plan - 401(k)/Profit Sharing Plan - Safe Harbor 401(k) Plan - Traditional Defined Benefit Plan - Cash Balance Plan - Fully Insured Plan - Combination plans for maximum benefit - Business succession planning and implementation - Qualified plan for business succession - Life insurance for estate settlement costs and survivor income needs - Life insurance for wealth replacement or estate equalization - Life insurance to fund buy-sell agreements	- Traditional Defined Benefit Plan - Fully Insured Plan - Business succession planning and implementation - Qualified plan for business succession - Life insurance for estate settlement costs and survivor income needs - Life insurance for wealth replacement or estate equalization - Life insurance to fund buy-sell agreements

Retirement Plan Options

Low Contributions/
Low Design Flexibility

High Contributions/
High Design Flexibility

1 Traditional IRA (Individual Retirement Account)

2 Roth IRA

3 SEP (Simplified Employee Pension Plan) IRA

4 SIMPLE (Savings Incentive Match Plan for Employees) IRA

5 403(b) Plan

6 Eligible 457(b) Plan

7 Individual (“Solo”) 401(k) Plan

8 Traditional 401(k)/Profit Sharing Plan

9 Safe Harbor 401(k) Plan

10 Traditional Defined Benefit Plan

11 Cash Balance Plan

12 Fully Insured Plan

1 Traditional IRA (Individual Retirement Account)

IRAs are perhaps the simplest and easiest form of retirement savings vehicle for individuals looking for tax advantaged accounts. They were introduced in 1974 with the enactment of the Employee Retirement Income Security Act (ERISA).

Characteristics

- Established by an individual.
- Tax deductible contributions (in many cases) with tax deferred growth.
- Non-deductible contributions still provide tax deferred growth.
- Ability to make catch-up contributions.
- May be eligible for a spousal contribution for a non-working spouse.

Gaps

- Deduction may be phased out based upon income levels for those persons (or their spouses) who are active participants in an employer sponsored plan.
- Contributions may not be used to purchase life insurance.
- Distributions are generally taxable.
- Penalty for early withdrawal in certain cases.
- Individual bears the investment risk.
- Contributions may not be as large as other types of plans

Best Utilization

- Build phase of the business life cycle.
- Viable solution for an individual to contribute, especially where there is no employer sponsored plan.
- Ability to contribute for a non-working spouse.

2 Roth IRA

The Roth IRA is a variation of the traditional IRA and was introduced as part of the Taxpayer Relief Act of 1997 and named after Senator William V. Roth, Jr. The Roth IRA uses after-tax contributions but has tax-free growth and distributions.

Characteristics

- Established by an individual
- Ability to make catch-up contributions.
- Uses after-tax dollars to fund.
- Tax free growth.
- May be eligible for a spousal contribution for a non-working spouse.
- Tax free distributions upon triggering event.

Gaps

- Eligibility is phased out for high income earners.
- Contributions may not be used to purchase life insurance.
- Individual bears the investment risk.
- Contributions may not be as large as other types of plans.

Best Utilization

- Build phase of the business life cycle.
- If eligible, the individual may also be an active participant in an employer sponsored plan.
- Desire for tax-free distributions.
- Desire to be free from minimum required distributions applicable to other retirement plans upon attaining age 70 ½.

3 SEP (Simplified Employee Pension Plan) IRA

The SEP IRA is one of the most popular retirement plans for self employed individuals and small business owners due to its simplicity and cost-free structure. Employer contributions are used to fund individual IRAs for the plan participants.

Characteristics

- Established by an employer.
- Simple to establish and maintain
- Unlike other employer-sponsored plans, there are no annual IRS filing requirements.
- Depending on formula used, no administration costs.
- Tax deductible contributions up to 25% of compensation with certain limitations.
- Funded solely by employer contributions.

Gaps

- May not include life insurance as a plan investment.
- May not allow for employee deferrals.
- Participants are immediately vested in 100% of the employer contributions.
- Cannot exclude part-time and/or seasonal employees.
- No distribution restrictions, although distributions prior to age 59 1/2 may be subject to early withdrawal penalty.
- If the SEP was established using the IRS model document, the employer may not maintain another qualified retirement plan in the same plan year.
- Participant bears the investment risk.

Best Utilization

- Build and Stable phases of the business life cycle.
- Young business owner with no or few employees.
- Can also be used with employers who do not have stable earnings histories.

4 SIMPLE (Savings Incentive Match Plan for Employees) IRA

The SIMPLE IRA is a fairly popular plan for businesses that have not previously had a retirement plan in place due to its simplicity and low cost structure. This plan is viewed as a "simplified" version of a 401(k) plan because employer contributions and employee deferrals can be made. Contributions and deferrals are made into an IRA for the plan participant.

Characteristics

- Established by an employer.
- Simple to establish and maintain.
- Minimal annual IRS filing requirements.
- No administration costs.
- Allows for pre-tax deferrals.
- Allows for pre-tax catch-up deferrals.
- Available to employers with 100 or fewer employees.
- Tax deductible employer contributions.

Gaps

- Mandatory employer contributions.
- Participants are immediately vested in 100% of the employer contributions.
- Employer may not maintain any other qualified retirement plan in the same plan year.
- May not include life insurance as a plan investment.
- IRS penalty is increased for withdrawals within 2 years of the first contribution to the plan.
- Participant bears the investment risk.

Best Utilization

- Build and Stable phases of the business life cycle.
- Young business owner with few employees.
- Can also be used with employers who do not have stable earnings histories.

5

403(b) Plan

403(b) plans are named after Section 403(b) of the Internal Revenue Code. They are retirement plans established for educational systems and certain non-profit organizations. These plans were created in 1958 and allow for pre-tax contributions as well as tax-deferred growth.

Characteristics

- Established by an eligible employer (non-profit tax-exempt organizations, organized under IRC Section 501(c)(3) and public school systems).
- Usually the employer makes no contributions. The plan is funded solely by employee deferrals.
- Catch up contributions are available for participants who are eligible.
- Generally, there are no administration costs.
- Generally, these plans are not covered by ERISA.

Gaps

- May only utilize a safe harbor uniform formula for employer contributions, if any.
- May not utilize life insurance as a plan investment.
- Individual bears the investment risk.

Best Utilization

- Stable and Peak phase of the business life cycle.
- For those eligible organizations that wish to offer a voluntary retirement benefit.

6 Eligible 457(b) Plan

Eligible 457(b) plans are named after Section 457(b) of the Internal Revenue Code. They were created in 1978 and allow for deferral of compensation on a pre-tax basis. The growth of the contribution is also tax-deferred. Unlike other retirement plans, the assets in a 457(b) plan do not belong to the individual but essentially represent a promise from the employer to the participant. This is not typically an issue because these plans are established by states, governmental agencies and large tax-exempt organizations, such as major universities. This could be an issue at a small non-governmental employer.

Characteristics

- Established by states, a political subdivision of a state, and any agency or instrumentality of a state or political subdivision.
- Can also be established by tax-exempt organizations.
- Considered a non-qualified deferred compensation plan.
- May be used in conjunction with a profit sharing/401(k) and 403(b) plan.
- For tax exempt organizations only, these plans can only be provided to a select group of management or highly compensated employees.

Gaps

- For non-governmental entity plans there is no catch-up provision for participants who have reached age 50 similar to qualified retirement plans, but there is a special catch-up provision.
- For non-governmental entity plans there is no IRA rollover/transfer provision.
- Participant usually bears the investment risk.

Best Utilization

- Stable and Peak phase of the business life cycle.
- Tax exempt organizations that wish to provide benefits to highly compensated employees and key management individuals.
- Governmental organizations that wish to provide a plan to allow for employee deferrals and also employer contributions.

7 Individual (“Solo”) 401(k) Plan

An individual 401(k) plan is a plan that combines the features of a 401(k) plan and a profit sharing plan for self-employed individuals or owners of small businesses with no full-time employees. These plans were created by provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) that went into effect on January 1, 2002. Combined with the provisions of Section 401(k) of the Internal Revenue Code, they allow business owners a simple and inexpensive way to save for their own retirement.

Characteristics

- Established by an employer that has no common-law employees who would be eligible to participate in the plan (e.g., full-time employees)
- Simple to establish and maintain.
- Simplified administration.
- Pre-tax and after-tax deferrals allowed.
- Catch-up contributions available for those age 50 and older.
- Discretionary tax deductible employer contributions up to 25% of compensation.
- May allow for rollovers and transfers from IRA’s and other eligible plans.
- May allow for plan loans.
- May include life insurance as a plan asset.
- May be combined with a defined benefit plan.

Gaps

- Will be treated as a traditional 401(k) once other common-law employees become eligible to participate.
- Employee bears the investment risk.

Best Utilization

- Build and Stable phase of the business life cycle.
- Business owner with no eligible common-law employees.
- Owner wishing to defer more than a SIMPLE or contribute more than a SEP.
- Owner wishing to have access to retirement assets via loans.
- Business owner wishing to pay for life insurance with tax-deductible business dollars.

8 Traditional 401(k)/Profit Sharing Plan

In 1978, the Internal Revenue Code was amended to include Section 401(k), leading to perhaps the most common and well known form of employer-sponsored retirement savings plan. 401(k) plans allow for pre-tax deferral of compensation, as well as employer contributions, either as a "matching" component or as a profit sharing contribution. Roth accounts are also allowed in 401(k) plans. This is a result of the Economic Growth and Tax Relief Reconciliation Act of 2001, and made permanent by the Pension Protection Act of 2006. Contributions and distributions follow much of the same rules as Roth IRAs, but with life insurance and loans allowed, and the larger 401(k) limits on contributions.

Characteristics

- Established by an employer.
- Employer contributions are discretionary up to 25% of eligible compensation.
- May be designed to have different contribution rates for different classes of employees.
- May be designed to favor older, highly compensated employees.
- Deferrals and contributions subject to discrimination testing.
- Pre-tax and after-tax deferrals allowed.
- Allows for catch-up contributions for those age 50 and older.
- May allow for rollovers and transfers from IRA's and other eligible plans.
- May allow for plan loans.
- May include life insurance as a plan asset.
- May be combined with a defined benefit plan.
- Allowed to exclude certain classes of employees.
- May have a vesting schedule.

Gaps

- Owners and other highly compensated individuals may not be able to contribute the maximum allowable by law due to low employee participation and deferral rates.
- Need a third party administrator to administer the plan and perform the necessary testing and governmental reporting.
- Participant bears the investment risk.

Best Utilization

- Stable and Peak phases of the business life cycle.
- Businesses that have growth and employer wants to give employees the opportunity to save for their own retirement.
- Earnings are not always stable and owner wants to maintain contribution flexibility.
- Owner would like to provide different contributions for different job classifications.

9

Safe Harbor 401(k) Plan

As a result of various requirements imposed on traditional 401(k) plans, including non-discrimination requirements to ensure that all employees, including rank-and-file, are being treated fairly, 401(k) plans have become burdensome and expensive to administer. The Small Business Job Protection Act of 1996 provided 401(k) plans with alternative, simplified methods of meeting the non-discrimination requirements, known as "safe harbor 401k" plans.

Characteristics

- Established by an employer.
- Employer either makes a 3% non-elective contribution or a matching contribution of 100% on the first 3% of deferral plus 50% on the next 2% of deferral (there may be a different matching schedule if using the Qualified Automatic Contribution Arrangement – an arrangement that automatically enrolls employees in a plan unless they specifically opt-out).
- Owners and other highly compensated employees are allowed to electively defer the maximum allowable by law regardless of what the rank-and-file (non owners and non highly compensated employees) are deferring.
- Additional discretionary tax deductible employer contribution, after the mandatory 3% or match, totaling 25% of eligible compensation.
- Individual allocations up to the maximum allowable by law.
- Allows for pre-tax or after-tax deferrals.
- Allows for catch-up deferrals.
- May allow eligible rollovers.
- May allow for plan loans.
- May include life insurance as a plan asset.
- May exclude employees by classification.

Gaps

- Employer's safe-harbor contribution is mandatory (it may be eliminated in certain limited circumstances).
- Employer's safe-harbor contribution is 100% vested (there may be a 2 year vesting period if using the Qualified Automatic Contribution Arrangement).
- Participant bears the investment risk.

Best Utilization

- Stable and Peak phases of the business life cycle.
- Earnings are stable.
- Owner has a workforce with low participation.
- Owner and other highly compensated employees wish to defer the maximum allowable by law.

10 Traditional Defined Benefit Plan

The defined benefit pension plan was once the predominant form of employer-sponsored retirement plan, providing a monthly retirement benefit determined based upon a formula that considered an employee's earnings history, tenure of service and age. The advent of the 401(k) plan replaced the defined benefit plan as the predominant form of retirement plan, partly because of the less expensive cost of administration of a 401(k) plan and the shifting of the investment risk from the company to the individual participant.

Characteristics

- Established by an employer.
- Contribution levels may be substantially higher than defined contribution plans.
- Favors older, highly compensated employees.
- May be provided along with a profit sharing 401(k) plan.
- May provide for substantial amounts of life insurance.
- Maximum contribution is actuarially determined by the amount needed to fund a defined benefit at normal retirement age.
- May have a tiered benefit formula which provides different benefits to different classes of employees.

Gaps

- More expensive to administer compared to a defined contribution plan.
- Contribution is mandatory each year subject to minimum funding rules.
- Employer bears the investment risk.

Best Utilization

- Stable, Peak and Transfer phases of the business life cycle.
- Business owners who have increased earnings and stable cash flow.
- Business owners and highly compensated employees who are more focused on retirement (usually 10 to 15 years or sooner).
- Businesses looking for increased tax deductions.
- Businesses where the youngest owners and key employees are seven or more years older than the oldest rank and file employee.
- Businesses wishing to provide different level of benefits to different types of employees.
- Owners looking to make up for lost time in accumulating retirement income.
- Owners and other highly compensated employees seeking a recovery plan due to market losses suffered by their other retirement accounts from economic down turns and recessions.

11 Cash Balance Plan

A cash balance plan is a variation of a defined benefit plan, seeking to combine the attributes of a defined contribution plan with a defined benefit plan. Each employee has a hypothetical account earning a fixed rate of interest on the employer's contribution which is typically based upon a percentage of the employee's earnings, to determine the employee's retirement fund at retirement age. The rate of interest can vary from year to year.

Characteristics

- Established by an employer.
- Termed a "hybrid" plan, blending attributes of a traditional defined benefit plan with a defined contribution plan.
- Provides a specific "contribution credit" and "interest credit" which are promised to the employee by the employer and set in the plan.
- May provide differing benefit formulas that may provide different benefits to different classes of employees.
- May be combined with a profit sharing 401(k) plan.
- Benefit is usually stated as a lump sum.
- Plans are typically based on a formula that considers pay in each year of participation (known as a "career average plan").
- Level funding provides for more stable contributions and makes it easier to budget for.
- May provide for substantial amounts of life insurance.
- Maximum contribution is determined by the amount needed to fund a defined benefit at normal retirement age, actuarially determined.

Gaps

- Older participants and those with many years of service have a less direct relation to income replacement needs than a plan that links benefits to final average pay.
- More expensive to administer compared to a defined contribution plan.
- Contribution is mandatory each year subject to minimum funding rules.
- Employer bears the investment risk.

Best Utilization

- Stable and Peak phases of the business life cycle.
- Owners in mid-career.
- Businesses with multiple owners of different ages.
- Businesses with up to 50 employees who wish to have more control of the cost to provide benefits to rank-and-file employees.
- Businesses wishing to tier benefits to different types of employees.

12 Fully Insured Plan

A fully insured plan is a defined benefit plan that is funded solely with life insurance, annuity contracts or a combination of both. As a result of this funding, the employer has shifted the investment risk to the insurance company that provides the insurance and annuity contracts. This allows the plan to avoid many of the funding requirements of traditional defined benefit plans, as well as administration requirements. It also allows for larger contributions to be made making them very popular for small business owners who have relatively few years left until retirement.

Characteristics

- Established by an employer.
- Contribution levels may be substantially higher than other types of defined contribution plans.
- Favors older, highly compensated employees.
- May be combined with a profit sharing 401(k) plan.
- May provide for substantial amounts of life insurance.
- Maximum contribution is determined by the amount needed to fund a defined benefit at normal retirement age, using a guaranteed interest rate as set by the insurance company's products.
- May be less expensive to administer than other defined benefit plans.
- Not subject to market volatility, no investment risk, no under- or over-funding.

Gaps

- More expensive to administer compared to a defined contribution plan.
- Contribution is mandatory each year.

Best Utilization

- Stable, Peak and Transfer phases of the business life cycle.
- Business owners who have increased earnings and stable cash flow.
- Business owners and highly compensated employees who are more focused on retirement (usually 10 to 15 years or sooner).
- Businesses looking for increased tax deductions.
- Businesses where the youngest owners and key employees are seven or more years older than the oldest rank and file employee.
- Owners looking to make up for lost time in accumulating retirement income.
- Owners and other highly compensated employees seeking a recovery plan due to market losses suffered by their other retirement accounts from economic down turns and recessions.
- Owners who are risk adverse.

Summary

As you can see, there are many tax-advantaged retirement plans to choose from to meet your retirement goals and objectives. In order to determine which is best for your particular situation, consult with your Guardian Financial Representative who can help guide you in making the right decision. Regardless of which plan you choose, saving for retirement is most effective when you start as early as possible and should never be ignored nor delayed.

The foregoing information regarding estate, charitable, retirement and/or business planning techniques is not intended to be tax, legal or investment advice and is provided for general educational purposes only. Neither Guardian, nor its subsidiaries, agents or employees provide tax or legal advice. You should consult with your tax and legal advisor regarding your individual situation.

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Pub 4631 (10/10)
2010—7762