

BENEFITS OF PROFIT SHARING AND OTHER ERISA QUALIFIED PLANS IN LIEU OF IRAS

PRESENTED BY:

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WHAT IS A “QUALIFIED RETIREMENT PLAN”?

- SIMPLY PUT, A “QUALIFIED RETIREMENT PLAN” IS A RETIREMENT PLAN WHICH IS DESCRIBED IN SECTION 401 OF THE INTERNAL REVENUE CODE AND ERISA.

WHAT IS A “QUALIFIED RETIREMENT PLAN”?

- USE DEFINITIONS OF WHAT THEY ARE FROM COMMON LANGUAGE.
- PROFIT SHARING PLAN
- 401(K) PLAN
- MONEY PURCHASE PENSION PLAN
- TARGET BENEFIT PLAN
- 412(i) PLAN
- DEFINED BENEFIT PLAN

WHAT DO YOU FIND IN A QUALIFIED RETIREMENT PLAN?

- REQUIRED COMMON RULES APPLICABLE TO ALL QUALIFIED PLANS:
- COVERAGE AND BENEFITS MUST BASICALLY APPLY TO ALL EMPLOYEES
- REQUIRES THE USE OF SOME TYPE OF VESTING SCHEDULE
- BECAUSE OF ANTI ALIENATION CLAUSE ITS ASSETS ARE NOT SUBJECT TO THE CLAIMS OF CREDITORS.

IRAS

- THEY ARE NOT “QUALIFIED PLANS” UNDER THE PROVISIONS OF THE INTERNAL REVENUE CODE AND ERISA.
- THEY ARE NOT COVERED BY ERISA’S ANTI ALIENATION CLAUSE AND THEREFORE MAY BE SUBJECT TO ATTACHMENT BY CREDITORS.
- THEY ARE THE LOWEST COMMON DENONMINATOR OF RETIREMENT ASSET.

IRA INVESTMENTS

- THE TYPES OF ASSETS THAT ONE MAY INVEST IN WITH AN IRA ARE MORE LIMITED THAN QUALIFIED RETIREMENT PLAN
- MAY NOT INVEST IN LIFE INSURANCE
- MAY NOT LOAN MONEY TO THE OWNER

TAX DEDUCTIBLE CONTRIBUTIONS TO IRAS AND QUALIFIED PLANS

- IN GENERAL YOU WILL BE ABLE TO MAKE SUBSTANTIALLY GREATER TAX DEDUCTIBLE CONTRIBUTIONS TO A QUALIFIED RETIREMENT PLAN THAN YOU WILL TO AN IRA

RECENT EXAMPLE

- CLIENT'S BUSINESS WAS GOING TO REAP A \$595,000 WINDFALL
- HIS ORIGINAL PLAN WAS TO PROTECT \$40,000 OF THE \$595,000 USING A 401(K) PLAN
- INSTEAD USED A 412(i) PLAN WHICH IS FORM OF QUALIFIED RETIREMENT PLAN AND PROTECTED \$460,000.

WHAT IS EASIER TO ESTABLISH: A QUALIFIED RETIREMENT PLAN OR AN IRA?

- BOTH CAN BE ESTABLISHED VERY EASILY.
- THE SAME AMOUNT OF PAPERWORK IS NEEDED FOR BOTH TYPES OF PLANS.

**WILL YOU, AS THE
PROFESSIONAL, CONTINUE
TO BE INVOLVED WITH
MONEY MANAGEMENT OR
THE ACCOUNTING FOR
THE QUALIFIED
RETIREMENT PLAN?**

YES!
**YOUR CLIENT, THE BUSINESS
OWNER, WILL BE THE
TRUSTEE AND WILL NEED TO
HAVE SOMEONE HE TRUSTS
HANDLE THE INVESTMENT
MANAGEMENT AND THE
ACCOUNTING AND TAX WORK
ASSOCIATED WITH THE PLAN.**

IRAS ARE ALSO SOLD AS “SIMPLE” RETIREMENT PLANS

- MOST FINANCIAL ADVISORS, ACCOUNTANTS AND ATTORNEYS ADVISE THEIR CLIENTS TO USE SIMPLE PLANS BECAUSE THEY BELIEVE THEY ARE PROVIDING GOOD COVERAGE WITH FEW PROBLEMS.
- IN REALITY THEY ARE SIMPLY TAKING THE EASY ROUTE AND COULD BE LOSING MILLIONS OF DOLLARS OF RETIREMENT FUNDS.

MANIPULATION OF QUALIFIED RETIREMENT PLANS

- MOST FINANCIAL ADVISORS, ACCOUNTANTS OR ATTORNEYS ARE NOT AWARE OF THE MANIPULATION THAT MAY BE LEGALLY UNDERTAKEN TO PROVIDE SUBSTANTIAL BENEFITS TO HIGHLY COMPENSATED OWNERS WHILE MAINTAINING SIGNIFICANTLY LOWER BENEFITS FOR OTHER EMPLOYEES.

BENEFITS TO BUSINESS, EMPLOYEES AND OWNERS

- TYPICALLY EMPLOYEES DO NOT WANT TO CONTRIBUTE TO THEIR OWN RETIREMENT BUT OWNER WANTS TO CONTRIBUTE AND HE IS LIMITED BY EMPLOYEES.
- WITH PROPERLY STRUCTURED QUALIFIED RETIREMENT PLAN, EMPLOYEES CAN SAVE AS MUCH AS THEY WANT FOR RETIREMENT AND OWNERS CAN PUT THE MAXIMUM CONTRIBUTION IN THEIR ACCOUNTS EACH AND EVERY YEAR.
- TYPICALLY CONTRIBUTION TO EMPLOYEES ACCOUNT MAY RUN AS LOW AS 4% OF COMPENSATION.

WHEN THE BENEFITS OF HIGHER CONTRIBUTION LEVELS ARE ADDED TO THE GREATER FLEXIBILITY FOR INVESTMENTS, THE ABILITY TO BORROW AND EVEN SOMETIMES THE ABILITY OF THE PLAN TO INVEST IN EMPLOYER SECURITIES, THE USE OF QUALIFIED RETIREMENT PLANS OVER IRAS BECOMES VERY CLEAR.

THE IDEA IS TO SET YOURSELF
APART FROM ALL OF THE
OTHER PRACTITIONERS IN THE
FIELD WHO SIMPLY BECAUSE
OF LAZINESS OR LACK OF
UNDERSTANDING FAIL TO
EVEN CONSIDER THE USE OF
ANYTHING OTHER THAN IRAS.

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**SMALL BUSINESSES HAVE
GROWN TO VERY LARGE
BUSINESSES AND HAVE USED
THEIR QUALIFIED PLANS TO
PURCHASE MILLIONS OF
DOLLARS OF EMPLOYER
SECURITIES THEREBY
PROVIDING A LARGE SOURCE
OF READILY AVAILABLE
CAPITAL.**

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USE OF LIFE INSURANCE IN QUALIFIED PLANS

- QUALIFIED RETIREMENT PLANS CAN PURCHASE LIFE INSURANCE FOR THE PLAN PARTICIPANT USING FUNDS AVAILABLE IN THE QUALIFIED PLAN.

KEY BENEFITS OF USING LIFE INSURANCE IN A QUALIFIED RETIREMENT PLAN

IN GENERAL LIFE INSURANCE MUST BE "INCIDENTAL" BUT CAN BE AS HIGH AS APPROXIMATELY 50% OF THE VALUE OF THE PLAN.

DEATH BENEFITS, WHEN PAID TO THE BENEFICIARIES, CAN BE PAID OUT INCOME TAX FREE TO THE BENEFICIARIES.

KEY BENEFITS, CONTINUED

- LIFE INSURANCE IS PURCHASED WITH BEFORE TAX DOLLARS INSIDE THE PLAN.
- IF PROPERLY STRUCTURED, THIS IS ONE OF THE ONLY WAYS THAT AN EMPLOYER CAN OBTAIN A FEDERAL TAX DEDUCTION FOR PROVIDING LIFE INSURANCE.

DETRIMENTS OF USING LIFE INSURANCE IN A QUALIFIED RETIREMENT PLAN

- TAX FREE BUILDUP OF CASH USUALLY FOUND IN LIFE INSURANCE POLICIES IS NOT NEEDED IN A QUALIFIED PLAN
- THERE COULD BE NEGATIVE INCOME TAX CONSEQUENCES AS THE LIFE INSURANCE IS REQUIRED TO BE PAID OUT TO THE BENEFICIARY.
- LIFE INSURANCE POLICY CANNOT BE ROLLED OVER TO AN IRA

STRATEGY FOR A RETIRING INDIVIDUAL

- HAVE THEM START A SMALL COMPANY AT RETIREMENT, PERHAPS A CONSULTING COMPANY (IT CAN BE A PART TIME ENDEAVOR).
- THE NEW COMPANY THEN STARTS A QUALIFIED RETIREMENT PLAN.
- THE FUNDS FROM THE EMPLOYEE'S CURRENT QUALIFIED RETIREMENT PLAN ARE THEN TRANSFERRED TO THE NEW QUALIFIED RETIREMENT PLAN ESTABLISHED BY THE EMPLOYER/EMPLOYEE.

THANK YOU FOR ATTENDING!

**PLEASE FILL OUT THE
EVALUATION FORM PROVIDED
IN THE BOOKLET.**