

INTRODUCTION TO PENSION AND RETIREMENT PLANNING (326-1)

Unasked Obj. A FINANCIAL SERVICES PROFESSIONAL CAN

1. set up tax-advantaged retirement plans for for-profit businesses [*Chapters 3, 4, + 5*],
2. set up retirement plans for nonprofit organizations [*Chapter 6*],
3. maximize the tax-shelter potentials of existing retirement plans [*Chapters 3, 4, 5, + 6*],
4. set up 401(k) plans to supplement existing retirement plans [*Chapter 5*],
5. update existing plans to comply with legislative changes [*Chapters 7, 8, 9, + 10*],
6. update existing plans to comply with organizational changes [*Chapters 7, 8, 9, + 10*],
7. develop investment strategies for retirement plans [*Chapters 11 + 12*],
8. sell investment products to retirement plans [*Chapters 11 + 12*],
9. plan the purchase of life insurance in tax-sheltered plans [*Chapters 10 + 12*],
10. set up nonqualified plans for executives [*Chapters 15 + 16*],
11. sell IRAs and Roth IRAs [*Chapters 17 + 18*],
12. provide advice about individual retirement planning [*Chapters 19 - 23*], *and/or*
13. plan effective distributions from retirement plans [*Chapter 24 + 25*].

Obj 1-1. TAX-ADVANTAGED RETIREMENT PLANS are employer-sponsored retirement plans that are eligible for favorable tax treatment because they meet specified regulatory requirements.

Tax-advantaged retirement plans combine tax-deferred compensation with tax-deferred investment earnings.

Four types of tax-advantaged plans available to private employers:

1. Qualified plans--consist of those plans subject to Internal Revenue Code (**IRC**) **Sec. 401(a)**. **Qualified plans include** defined-benefit pension plans, cash-balance plans, money-purchase pension plans, target-benefit plans, profit-sharing plans, 401(k) plans, stock bonus plans, *and* ESOPs. Qualified plans will be discussed in Chapters 4 and 5.
2. Simplified employee pensions (SEPs) are retirement plans that use Individual Retirement Accounts as the vehicles for receiving contributions. SEPs will be discussed in Chapter 6.
3. Savings incentive match plans for employees (SIMPLEs) are also funded with IRAs. SIMPLEs will be discussed in Chapter 6.
4. 403(b) plans (aka tax-sheltered annuities)--are available *only* to public schools and certain tax-exempt organizations. 403(b) plans will be discussed in Chapter 6.

Five tax benefits of tax-advantaged plans:

1. Employers receive a tax deduction when contributions are made.
2. Earnings on plan investments are tax-deferred.
3. The employee defers taxes until he receives the benefits.
4. Plan distributions may be rolled over into an IRA or other tax-deferred vehicle when the participant becomes eligible to receive the benefit.
5. Distributions receive special tax treatment. [*See Chapter 24.*]

Six basic characteristics of all tax-advantaged plans:

1. The plan must cover a significant amount of rank-and-file employees.
2. An employee must be vested in some benefits after a certain number of years of employment.
3. The employer must notify employees of the plan's terms, conditions, and expected benefits.
4. The plan can *not* discriminate in favor of highly-compensated employees in terms of the level of benefits.
5. Plan funds must be set aside in a funding vehicle outside the reach of the employer and its creditors.
6. Plans must be stated clearly in writing.

A **NONQUALIFIED PLAN** is a deferred-compensation plan that benefits only a few key employees and does *not* receive favorable tax treatment.

There are few restrictions regarding benefit structure, vesting, and coverage.

Plan assets are *not* protected from the employer or its creditors.

A plan can be designed to defer the employee's payment of income taxes, but the employer's tax deduction is deferred until the time of the payout.

AN INDIVIDUAL RETIREMENT ACCOUNT (IRA) is a retirement account set up by an individual, who then benefits from tax-deductible contributions and deferred taxation on earned income.

Objs. 1-2, 1-3, + 1-4. **ADVANTAGES OF TAX-ADVANTAGED PLANS:**

1. **The financial services professional**--earns money by designing and selling qualified retirement plans.
2. **The employee**--saves on taxes and accumulates more funds by using qualified plans instead of self-directed savings accounts.
3. **The employer--receives current tax deductions and the abilities to**
 - a. attract, retain, and motivate employees;
 - b. appease or avoid unions;
 - c. retire older, less productive workers; *and*
 - d. be socially responsible.
4. **The business owner--receives**
 - a. tax-sheltered income,
 - b. financial security,
 - c. protection of tax-advantaged plan assets from creditors, *and*
 - d. protection from the corporate accumulated earnings tax.