



# 412(i) Defined Benefit Plans

## **412(i) Plans, Inc.**

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## **The Situation:**

Retirement income, tax savings, asset protection, and conservative investing continues to be a top concern for many self-employed individuals. Due to the tax-deductible contribution limitations on defined contribution plans such as 401(k) and other profit sharing plans, many successful small business owners may find that defined contribution plans do not meet their needs.

## **What is a Defined Benefit Plan?**

A defined benefit plan defines the benefit that will be paid to the participant at retirement. The employer makes contributions to the plan sufficient to amortize and pay the guaranteed future benefit. The calculations needed each year to ensure the plan will have enough assets to meet the retirement distribution in the future is done entirely by us, 412(i) Plans, Inc.

## **Advantages of a 412(i) Defined Benefit Plan:**

- ◆ Tax-deductible contributions significantly greater than defined contribution plans.
- ◆ Invested assets protected against market losses.
- ◆ Invested assets protected from claims of judgment creditors.
- ◆ Invested assets eligible for tax-free IRA rollover.
- ◆ IRS Favorable Determination Letter

## **Advantages of Using Life Insurance in a 412(i) Plan:**

- ◆ Premium/contributions are tax-deductible.
- ◆ Participant is taxed on current Reported Economic Benefit amount only.
- ◆ Death benefit proceeds in excess of the cash value are paid to the participant's beneficiary income tax-free, and estate tax-free if to spouse.
- ◆ Provides the participant's estate with liquidity.
- ◆ Guarantees plan participants a benefit if they die before retirement age.

## **Ideal Candidates:**

For whom is a 412(i) plan suited? Essentially, self-employed workers 45 years of age or older who typically earn \$100,000 or more and are interested in making annual contributions of more than would otherwise be permitted in a defined contribution plan (up to \$44,000 for 2006) for at least three years. And who might fit these criterion? Dentists, doctors, lawyers, independent contractors, sports figures, celebrities, realtors, developers, consultants and other professionals are often good candidates, as well as self-employed spouses of high-income earners.

Remember, 412(i) plans for 2006 must be reduced to writing and signed by December 31, 2006, but funding can be deferred until 8 ½ months after the end of the plan year (September 15<sup>th</sup> for calendar plan years). One caveat: the life insurance premium must be paid in the first three months of the plan year.

## **How is a 412(i) Plan Different from Other Defined Benefit Plans?**

A 412(i) plan must, by statute, be funded exclusively with guaranteed return life insurance and/or annuity policies. It is exempt from the minimum funding requirements of Section 412 of the Internal Revenue Code.

### **How it Works:**

A 412(i) defined benefit qualified plan is established for the business owner and his or her employees. Tax-deductible contributions are made to the plan in the form of premium payments, which are used to purchase annuity and life insurance products.

For More Information Visit our Website [www.412iplansinc.net](http://www.412iplansinc.net), or call us at 888-412-4120.