

401(k) PROFIT SHARING SOLUTIONS



RAYMOND JAMES®

Establishing an Effective Plan for Your Company, Your Employees and Yourself

Your company's success depends on quality employees. And attracting and retaining them often takes more than a competitive salary or a satisfying environment. Workers today expect added benefits, including the means to save for retirement through alternatives such as a 401(k) plan.

As a business owner, you likely already recognize the importance of offering – and receiving – such a benefit. After all, establishing a 401(k) plan can provide both you and your employees with the means for a secure retirement, while also helping you gain tax advantages for your business and ultimately affecting your company's bottom line.

However, deciding which 401(k) arrangement is best for your organization – and then maintaining the plan – can be a challenge. That's where we can help. Our goal is to listen to you to determine the best approach for your business, then search our database of 401(k) providers to find a plan that meets your company's unique needs. Since Raymond James has no proprietary "in-house" 401(k) products, we offer truly objective advice. Ours is an approach that is unique in the industry ... one that focuses on you and your business rather than a specific retirement alternative.

But our commitment to you doesn't stop there. We not only assist in evaluating options, but work with you to coordinate the different components of the 401(k) process on an ongoing basis. And we believe that establishing a 401(k) plan for your company also means creating long-term relationships with your employees – providing assistance in understanding investing and coordinating their 401(k) allocations with all other assets into complete financial plans.

The next few pages give an overview of 401(k) plans and the decisions that must be made to ensure an effective program for your company. Please take the time to read through the information, then we will work together to create a plan tailored to your needs.



About 401(k) Plans

A 401(k) is a profit sharing retirement plan that allows employees to make elective salary deferrals while avoiding current taxes on that portion of their income. Most employers, including nonprofit organizations but excluding government entities, can offer a 401(k) plan to their employees.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) allowed employees to add qualified Roth contributions to a 401(k) plan starting January 1, 2006. The Roth 401(k) contributions only apply to the employees' elective salary deferrals.

There are several common factors that employers should consider when evaluating whether a 401(k) plan is right for their company:

Eligibility Requirements

Employees who are at least age 21 and who have completed one year of service are generally eligible to participate. Certain employees, such as those covered by a collective bargaining agreement, may be legally excluded.

Funding the 401(k)

A 401(k) plan can be funded from one or more of the following sources:

- Employee elective salary deferral – All 401(k) plans permit employees to voluntarily contribute, or “defer,” a portion of their salaries to the plan, either pretax or after-tax Roth contributions.
- Matching employer contribution – As an incentive to participate, many employers match a portion of each participant's elective salary deferral. This discretionary matching contribution is tax deductible for the company. An employer may not make the matching contribution in the form of an after-tax Roth contribution.
- Employer profit sharing contribution – Employers may also make a discretionary contribution to all eligible employees, regardless of whether or not the employee makes an elective salary deferral. The employer profit sharing contribution must be pretax and not an after-tax Roth contribution.

Individual Contribution Limits

The maximum 401(k) deferral for 2008 is the lesser of 100% or \$15,500 of each employee's eligible payroll. Plan documents may limit salary deferrals to less than 100%.

Employer Contribution Limits

The employer's contribution limit is 25% of each employee's eligible payroll. While an employee can exceed 25%, total contributions from the three funding sources listed above cannot surpass the \$46,000 maximum.

Nondiscrimination Requirements

401(k) plans may not discriminate in favor of highly compensated employees (HCEs) – employees who own 5% or more of the company or who earn a minimum of \$105,000. Each plan is subject to an annual nondiscrimination test, commonly referred to as the Actual Deferral Percentage (ADP) test, that is intended to prevent the plan from benefiting only the HCE group. In essence, the amount that an HCE may defer is controlled by the deferral rate of the nonhighly compensated employee (NHCE) group.

In addition, every 401(k) plan has a number of different components that must be coordinated to ensure the most effective benefit for your employees.

Actual Deferral Percentage (ADP) Test

	HCE	NHCE
<p>This chart illustrates the highest deferral percentage available to the HCE group, as an average, if the ADP for the NHCE group is at a specific level.</p> <p>Highly compensated employees include:</p> <ol style="list-style-type: none"> 1. A 5% or more owner 2. Any employee who earns \$105,000* or more <p>*Indexed figures for 2008</p>	2%	1%
	4%	2%
	5%	3%
	6%	4%
	7%	5%
	8%	6%
	9%	7%
	10%	8%
	11.25%	9%
	12.5%	10%

Investment Alternatives

With most 401(k) plans, participants can choose investments from among a variety of alternatives. An effective plan should allow employees to move freely among available funds to create the best asset allocation for their needs.

Recordkeeping

Allocating contributions and earnings among different investment alternatives, calculating vesting amounts and generating participant statements are usually referred to as participant-level accounting. These functions are critical to keep the plan running smoothly.

Plan Administration

Regulatory functions, such as plan qualification, nondiscrimination testing, reporting to the IRS and disclosure to employees, must be performed on an annual basis. In addition, participant-level information must be incorporated into plan-level accounting as part of IRS reporting.

Employee Communication

From the long-range perspective of creating the means for employees to accumulate assets for retirement, this is the most important component of the 401(k) plan structure. It is critical for employees to have a basic understanding of the concepts of investing and how their plan works.

Trustee Selection

Unlike a traditional pension plan, an outside trustee mainly performs custodial functions in a participant-directed 401(k) plan – such as distributions and the related reporting functions – but assumes no fiduciary liability.

Structuring Your Plan

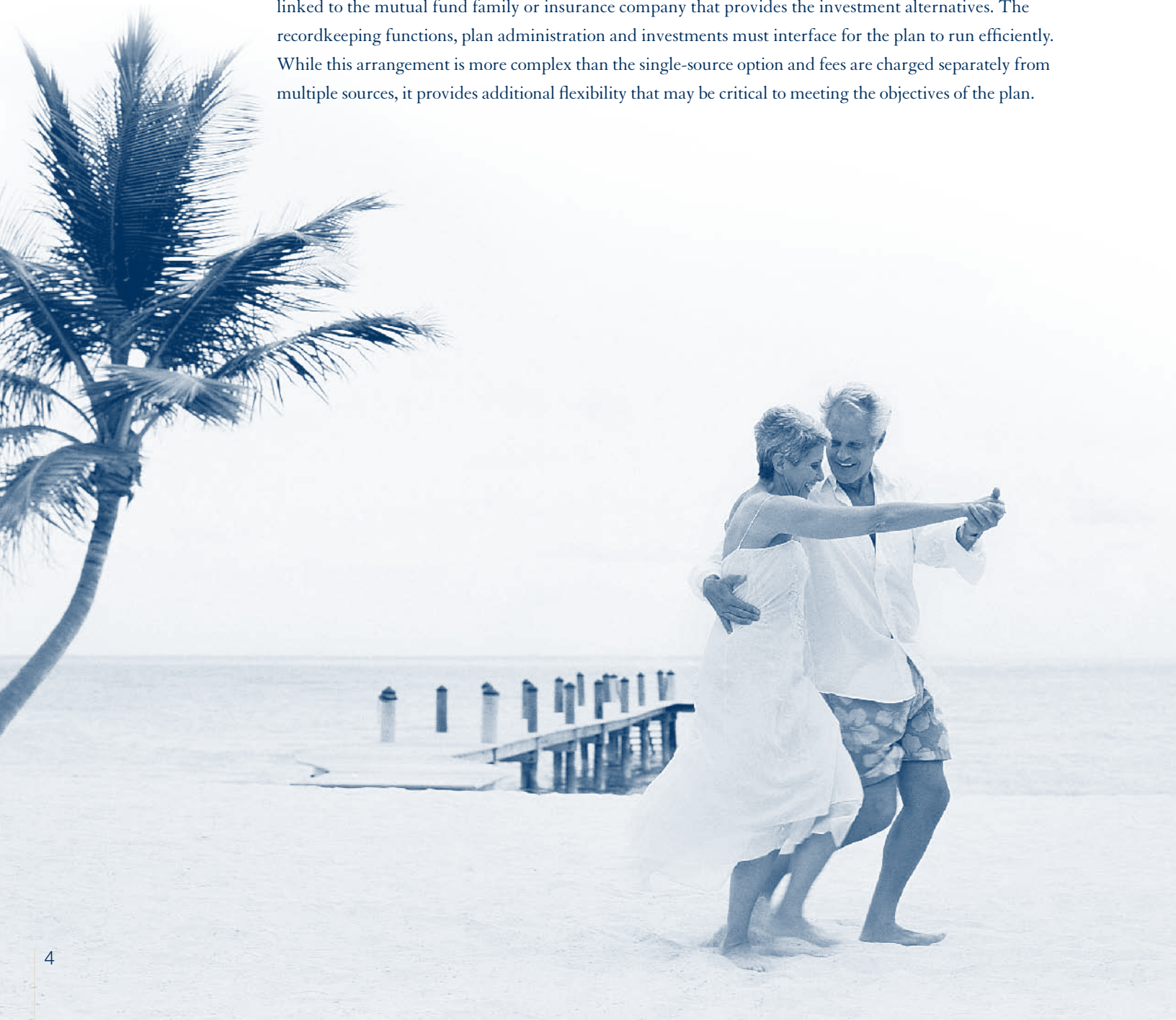
While there are many factors that influence 401(k) decisions, choosing a structure is often determined by the maintenance and fees involved. The three basic structures are:

Single Source

This arrangement is a full-service package that provides single-source responsibility – as well as a single source of fees – for all functions. Frequently referred to as a “bundled” plan, this format has the fewest components and is the simplest to maintain.

Multiple Source

This is also a packaged arrangement, but adds a third-party administration firm that can be electronically linked to the mutual fund family or insurance company that provides the investment alternatives. The recordkeeping functions, plan administration and investments must interface for the plan to run efficiently. While this arrangement is more complex than the single-source option and fees are charged separately from multiple sources, it provides additional flexibility that may be critical to meeting the objectives of the plan.



Unbundled

In this arrangement, many components operate independently, and no single source is responsible for the process as a whole. As such, while this option offers total investment flexibility, it has the greatest potential for operational breakdowns and poor service. In addition, the unbundled approach may require more day-to-day employer involvement.

While your individual needs will dictate which type of plan is right for your company, most employers tend to select the single- or multiple-source arrangements to reduce management responsibility, as well as likelihood of problems with the different parts of uncoordinated plans.

In addition to the general structure of your plan, there are also two investment arrangements to choose from:

Single Mutual Fund Family

Providing investment choices from a single company typically offers the lowest overall cost since all functions are controlled by one entity. Choosing a fund family with investment alternatives across different asset classes can deliver a cost-effective retirement plan structure while minimizing your fiduciary liability.

Multiple Fund Managers

This format, which is usually provided either through an insurance company or an alliance arrangement with an independent plan administration firm, employs investment managers from different fund families with the idea that this selection process may potentially result in superior long-term performance.

Insurance companies offer group annuity packages specifically designed for qualified retirement plans, although they typically do not contain an insurance component. A sophisticated recordkeeping system guarantees same-day execution of trades across fund family lines. In addition to the internal fund expenses, the insurance company imposes an asset charge for maintaining the plan and generating the participant-level accounting.

The trading platform alliances, in which an independent plan administration firm is linked to a transfer agent trading platform that processes trades across fund family lines, may allow a wider selection of fund choices but can also be more complex. In addition, the overall accountability is divided among several sources, which can lead to communication problems. The cost of linking the unrelated funds is structured differently than the group annuity format, but the result is still a higher overall cost than a single mutual fund family approach.

*W*hen comparing single-fund and multiple-fund alternatives, you should examine both costs and expectations. Consider whether the performance potential that a broader selection of investment managers may offer warrants the additional expense of having access to these funds, or if the participants are better off with fewer choices and lower expenses.

Other Company Retirement Plan Alternatives

Because of the complexities of traditional 401(k) plans, some business owners – especially those with fewer employees – may choose to explore options better suited to their needs. In the past, this often meant choosing to offer no retirement plan at all. However, newer alternatives can replace or supplement more conventional plans, reduce administration efforts and costs involved, and/or provide added benefits for business owners.

Safe Harbor 401(k)

A Safe Harbor 401(k) plan is similar to a traditional 401(k), however, its key benefit is that low employee participation does not keep the business owner from achieving the maximum pretax payroll deferral limit. This is because a Safe Harbor 401(k) allows you to avoid nondiscrimination, ADP and ACP testing. However, the company must be willing to make contributions on behalf of its employees. There are two options:

- A dollar-for-dollar match for the 3% of compensation and \$0.50 per dollar on the next 2%. If an employee contributes 5% of his or her salary to a Safe Harbor 401(k), the employer match obligation is 4%.
- A 3% of compensation nonelective contribution to all employees eligible to contribute to the Safe Harbor 401(k). Each will receive the 3% regardless of plan participation.

The company can also make additional contributions, up to 25% of eligible compensation per eligible employee (reduced by its match or nonelective contribution).

Safe Harbor Contribution (3% Nonelective Option)

	W-2 Compensation	Pretax Payroll Deferral ¹	3% Safe Harbor Employer Contribution ²	Additional Employer Profit Sharing Contributions ³	Total Contributions ¹
Owner	\$230,000	\$15,500	\$6,900	\$23,600	\$46,000
Employee 1	\$40,000	\$4,000	\$1,200	\$4,104	\$9,304
Employee 2	\$30,000	\$1,500	\$900	\$3,028	\$5,428
Employee 3	\$20,000	\$0	\$600	\$2,052	\$2,652
					\$63,384
Percent of Total Employer Contribution Allocated to Owner					72%

¹ If any participant is age 50 or older, an additional \$5,000 may be contributed through catch-up payroll investments. This illustration assumes that no employees qualify for the catch-up contribution.

² Owner satisfies Safe Harbor and top-heavy requirements by making a 3% fully vested contribution to all participants, including both contributing and noncontributing employees, as well as himself/herself.

³ Owner makes an additional 10.3% contribution to all participants, subject to a vesting schedule, to achieve the maximum contribution of \$46,000 for himself/herself.

Safe Harbor Contribution (4% Matching Option)

	W-2 Compensation	Pretax Payroll Deferral ¹	4% Safe Harbor Employer Contribution ²	Additional Employer Profit Sharing Contributions ³	Total Contributions ¹
Owner	\$230,000	\$15,500	\$9,200	\$21,300	\$46,000
Employee 1	\$40,000	\$4,000	\$1,600	\$3,704	\$9,304
Employee 2	\$30,000	\$1,500	\$1,200	\$2,778	\$5,478
Employee 3	\$20,000	\$0	\$0	\$1,852	\$1,852
					\$62,634
Percent of Total Employer Contribution Allocated to Owner					73%

¹ If any participant is age 50 or older, an additional \$5,000 may be contributed through catch-up payroll investments. This illustration assumes that no employees qualify for the catch-up contribution.

² Owner satisfies Safe Harbor and top-heavy requirements by making a 4% fully vested contribution to all participants, including both contributing and noncontributing employees, as well as himself/herself.

³ Owner makes an additional 9.3% contribution to all participants, subject to a vesting schedule, to achieve the maximum contribution of \$46,000 for himself/herself.

Profit Sharing Plans

Profit sharing plan contributions are common in a traditional 401(k) or the Safe Harbor 401(k). Other profit sharing plan alternatives that may be effective ways to supplement a 401(k), especially to maximize benefits to the owner or other highly compensated employees, are:

New Comparability Profit Sharing Plans

New comparability plans are not new to the family of plan design options, but recent tax law changes make it easier for select employees to maximize contributions. They are profit sharing plans in which employees are divided into groups, with each receiving a contribution that is a different percentage of compensation. Often, this simply means that the owner(s) is one group and all other employees are another. However, some employers choose to have several groups. For example, they may divide employees based on age, company position or job function.

The employer and select employees can maximize their contributions of \$46,000. Nonselect employees receive either a 5% minimum contribution gateway or a 3:1 ratio contribution gateway. Of course, this satisfies IRS testing requirements.

Age-Weighted Profit Sharing Plans

In age-weighted profit sharing plans, the employer contribution is allocated to provide an assumed retirement benefit at the normal retirement age of 65. Age-weighted benefits must be equivalent to those received through compensation-based profit sharing plans. This type of plan is subject to the same nondiscrimination testing as new comparability plans.

The chart below demonstrates how using a new comparability or age-weighted profit sharing plan may allow business owners to achieve greater retirement savings.

Enhanced Profit Sharing Contribution

Eligible Employee	Age	Class	W-2 Compensation	Regular	Social Security Integration	Age-Weighted	New Comparability
Owner 1	57	1	\$230,000	\$46,000	\$46,000	\$46,000	\$46,000
Owner 2	48	1	\$230,000	\$46,000	\$46,000	\$46,000	\$46,000
Subtotals			\$460,000	\$92,000	\$92,000	\$92,000	\$92,000
Class Two	50	2	\$40,000	\$8,000	\$6,731	\$9,418	\$2,000
Class Two	35	2	\$30,000	\$6,000	\$5,048	\$2,077	\$1,500
Class Two	25	2	\$20,000	\$4,000	\$3,366	\$613	\$1,000
Subtotals			\$90,000	\$18,000	\$15,145	\$12,108	\$4,500
Totals			\$550,000	\$110,000	\$107,145	\$104,108	\$96,500

Combined with a Safe Harbor 401(k), a new comparability or age-weighted profit sharing plan can reduce the total amount employers contribute to employees without reducing the plan limit amount for themselves.

Enhanced 401(k) Contribution

Eligible Employee	Age	Class	W-2 Compensation	Salary Deferral	Match (4%)	Catch-Up	Regular	Social Security Integration	Age-Weighted	New Comparability
Owner 1	57	1	\$230,000	\$15,500	\$9,200	\$5,000	\$21,300	\$21,300	\$21,300	\$21,300
Owner 2	48	1	\$230,000	\$15,500	\$9,200	N/A	\$21,300	\$21,300	\$21,300	\$21,300
Subtotals			\$460,000	\$31,000	\$18,400	\$5,000	\$42,600	\$42,600	\$42,600	\$42,600
Class Two	50	2	\$40,000	\$4,000	\$1,600	N/A	\$3,704	\$2,435	\$4,361	\$1,234
Class Two	35	2	\$30,000	\$1,200	\$1,200	N/A	\$2,778	\$1,827	\$962	\$926
Class Two	25	2	\$20,000	\$0	\$0	N/A	\$1,852	\$1,218	\$284	\$617
Subtotals			\$90,000	\$5,200	\$2,800	N/A	\$8,335	\$5,480	\$5,607	\$2,777
Totals			\$550,000	\$36,200	\$21,200	\$5,000	\$50,935	\$48,080	\$48,207	\$45,377

For more information on 401(k) plans and other retirement plan alternatives for your business, please contact us today. We look forward to helping you create an effective retirement benefit for your company, your employees and yourself.

RAYMOND JAMES[®]

Individual solutions from independent advisors

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