

The Micro(k)[®]

A "Next Level" Retirement Plan

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The Pension Protection Act of 2006 extended an unparalleled opportunity for businesses that only employ owners and their spouses to save significant sums in a tax-favored retirement plan. Conventional wisdom of the past few decades was to use a Simplified Employee Pension (SEP). Now there is another choice that may be far better: The Micro(k) Plan.

A SEP allows any employee to contribute up to 25% of eligible salary to an IRA custodial account, not to exceed \$54,000 in 2017. However, many small-business owners take modest salary draws or do effective tax planning to minimize earned income. Thus, it is often very difficult for these business owners to contribute the desired sum.

A Better Option

Fortunately, business owners can defer substantial amounts using a 401(k) cash or deferral feature and continue to contribute up to 25% of pay to a plan until the total contribution reaches 100% of pay, not to exceed \$54,000.

This maximum annual "addition" is the aggregate of pre-tax deferrals and employer matching or other contributions. Individuals age 50 or older are allowed "catch-up" deferrals.

The following chart summarizes the maximum deferral and catch-up limits that may be made in any calendar year:

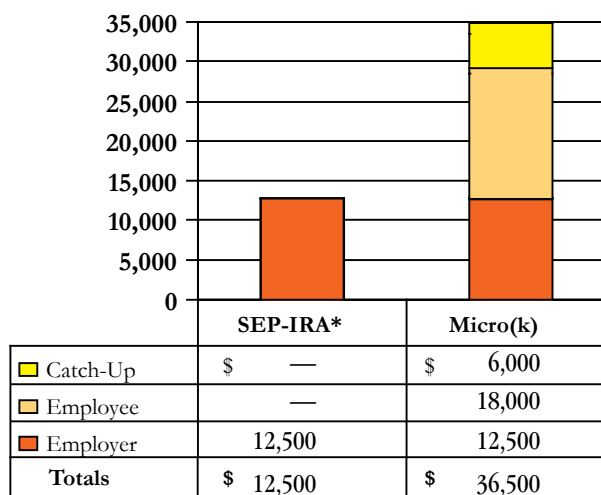
Year	Maximum Deferral	Catch-Up (Age 50+)
2016	18,000	6,000
2017	18,000	6,000

Salary deferrals may be either traditional pre-tax or after-tax using a "Roth election," or both. Our Plans, upon request, can include a Roth option so that the employee may achieve greater "tax-diversification" at retirement.

Micro(K)[®] Example

Don is age 50 and takes \$50,000 of eligible annual pay from his corporation. However, his business is profitable, and he would like to contribute more than his current SEP-IRA retirement plan allows.

Micro(k)[®] with \$50,000 Income



Better yet, all the contributions are made at the complete discretion of Don. He can vary his personal contribution, catch-up and profit sharing contribution every year.

**In the case of the SEP-IRA, Don can also contribute \$5,000 into a separate IRA account with an additional \$1,000 as a catch-up deferral.*

Special Micro(k)[®] Program

A 401(k) plan can be complex because the amount that the owner(s) and their spouse(s) may defer is dictated by the participation rate of the rank-and-file employees. However, non-discrimination testing is not required for "single life" plans. Better yet, no annual reporting is required until the plan assets reach \$250,000.

The 2006 tax act expanded the definition of a "single life" plan to include Plans where only the owners and spouses are eligible to participate. Owners now include sole proprietors, 2% owners of S corporations, and 5% owners of partnerships, LLPs and LLCs.



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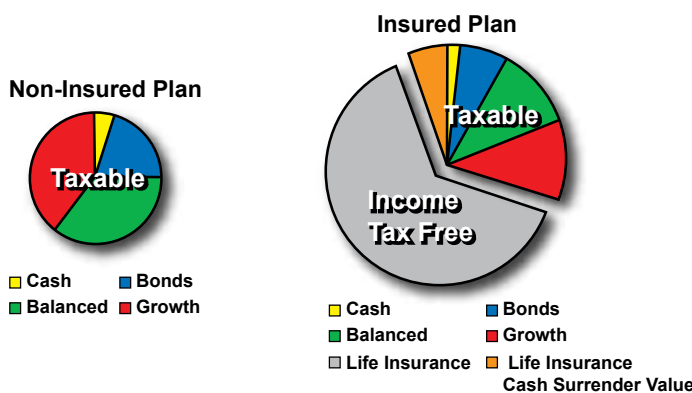
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Investment Options

Micro(k) contributions are deposited into a 401(k) trust. Investment options are selected by the plan trustees. Each eligible participant is typically given the ability to direct the investment of his or her own account by selecting from among the allowable options.

Our Micro(k) program allows substantial freedom. Suitable plan investments include mutual funds¹, annuity contracts, guaranteed interest contracts or combinations of all of the above.

Enhanced Survivor Benefits



Unlike most 401(k) plans offered through a mutual fund company, our Micro(k) program includes a special optional benefit that allows the purchase of cash value life insurance to protect family(ies) should the participant not live to retirement. It may be a wise part of the participant's asset allocation strategy.

When life insurance is purchased inside a plan, the death benefit in excess of the cash surrender value is paid to beneficiaries free of ordinary income tax. Each year while the policy is in the plan, the participant pays income tax on the pure cost of the life insurance protection. Upon separation from service or retirement, the life insurance policy must be removed from the plan. There are several options available at that time; each with its own advantages and tax consequences.

¹Security Mutual Life Insurance Company of New York does not offer mutual funds or other equity-based products.

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Contribution Timing

The employer contribution must be made by the tax filing date (including extensions).

There are special rules for the election of salary deferral contributions under a newly established plan and potential differences in the timing of salary deferral contributions, depending on whether the participant has W-2 or self-employment income. Security Administrators, Inc., (SAI), a wholly owned subsidiary of Security Mutual, can assist with these rules at the time the plan is implemented.

Any additional "employer" contributions (up to 25% of pay) can be made in the following year up to the due date for filing the return.

The employer's tax advisor will help calculate the maximum allowable contribution each year. SAI can provide added consultative services on a fee-for-service basis.

Plan Administration

Before salary deferrals and employer contributions can be made, the Plan and Trust must be established. SAI can provide everything at a competitive price. The plan must be adopted by the last day of the tax or fiscal year (e.g., 12/31 if it is a calendar year business).

A Micro(k) will require annual reporting when the total plan assets exceed \$250,000. SAI can assist with completing the IRS form 5500 EZ for an additional fee when required. Please consult SAI's special Micro(k) Fee Schedule for details.

All administrative fees are generally deductible too. "Top Heavy" minimum contributions may be required if common-law employees enter the plan and more than 60% of the plan assets attribute to the owners. SAI's regular 401(k) fee schedule would also then apply.

Please visit www.smlplans.com for more information.

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