Retirement Planning Guide

2014 Edition

W&S Financial Group Distributors
A member of Western & Southern Financial Group

Issuers: Integrity Life Insurance Company | National Integrity Life Insurance Company | Western-Southern Life Assurance Company

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Traditional IRA

IRA – Individual Retirement Account

A tax-favored savings plan that encourages accumulation of savings for retirement

Contribution Limits

- Annual contribution limit for individuals is the lesser of $5,500 or 100% of compensation; the $5,500 limit includes contributions for both a traditional IRA and Roth IRA combined.
- Married couple's maximum annual contribution is lesser of $11,000 or 100% of compensation; each spouse must maintain his or her own separate IRA, and the $5,500 limit applies to each spouse separately.
- Catch-up provision: Workers age 50 (by the end of the calendar year) or older are permitted to make an additional $1,000 contribution, which makes the annual contribution limit $6,500 for workers who attain age 50 or older on or before Dec. 31, 2014.

IRA Eligibility and Deductibility

- Any US taxpayer under age 70½ who earns compensation can make a contribution to a traditional IRA.
- If neither the taxpayer nor the taxpayer's spouse is an active participant in an employer-sponsored retirement plan, their traditional IRA contributions are deductible.
- If an individual is not an active participant in a retirement plan but the individual's spouse is a plan participant, then the non-active participant's IRA contributions are deductible if the couple's income is below a certain limit (i.e., $181,000 or less for full deduction; more than $181,000 but less than $191,000 for partial deduction, indexed for 2014).
- If an individual is an active participant in a retirement plan their IRA contributions are deductible, provided the taxpayer's adjusted gross income (AGI) falls below a certain limit. (See chart on the next page.)

Traditional IRA *(continued)*

2014 Indexed AGI Limits for Deductible IRA Contributions

Filing Status	Full IRA Deduction	Reduced IRA Deduction	No IRA Deduction
Married, filing separately	None	Less than $10,000	$10,000 or more
Individual	$60,000 or less	More than $60,000 to $70,000	$70,000 or more
Married, filing jointly	$96,000 or less	More than $96,000 to $116,000	$116,000 or more

Distributions from Traditional IRAs

- Participants may take a withdrawal from the IRA at any time; however, the withdrawal will be subject to a 10% excise (penalty) tax, in addition to ordinary income taxes, unless the distribution qualifies under one of these exceptions:
  - Age 59½ or older
  - Substantially equal periodic payments over life or life expectancy
  - Death or disability of participant
  - Medical expenses in excess of 10% of adjusted gross income
  - Qualified higher education expenses (i.e., tuition, fees, books, supplies, etc.)
  - First home purchase ($10,000 lifetime limit)
- Required minimum distribution (as defined by the IRS) must begin no later than when IRA owner attains age 70½.

Target Market

- Individuals who are not currently participating in or contributing to an employer-sponsored retirement plan.
- Individuals interested in a rollover vehicle for retirement plans, such as 401(k), 457(b), 403(b), SEP IRA and SIMPLE.

Roth IRA – *A nondeductible IRA with the potential of earnings being distributed income tax free*

Differences Between Roth IRAs and Traditional IRAs

- Roth IRA contributions are made on an after-tax basis; contributions to traditional IRAs may be tax deductible, depending on whether the individual participates in a retirement plan and their AGI. Contributions to Roth IRAs are not deductible.
- Roth IRA earnings may qualify for tax free distribution; traditional IRA earnings do not qualify for tax free distribution.
- Withdrawals from Roth IRAs are distributed "investment in the contract," or basis, first.
- Pre-death required minimum distribution rules do not apply to Roth IRAs but do apply to traditional IRAs.

Contribution Limits (for Roth IRAs and Traditional IRAs)

- Annual contribution limit for individuals is the lesser of $5,500 or 100% of compensation; this $5,500 limit applies to combined contributions to both a traditional IRA and Roth IRA. An individual of any age who earns compensation may establish or contribute to a Roth IRA in the year compensation is earned.
  Caveat:
  - Full contribution is permitted for single taxpayers with modified adjusted gross income (MAGI) up to $114,000.
  - Contributions are phased out for single taxpayers with MAGI between $114,000 to $129,000.

- A married couple's maximum annual individual contribution is the lesser of $5,500 or 100% of compensation; each spouse must maintain his or her separate traditional and/or Roth IRA. The $5,500 limit applies separately to each spouse.
  Caveat:
  - Full contribution is permitted for married joint filers with MAGI up to $181,000.
  - Contributions are phased out for married joint filers with MAGI between $181,000 to $191,000.
  - Contributions are phased out for a married filer who files separately between $0 to $10,000 MAGI.
  - Contributions are phased out for single, head of household filers between $114,000 to $129,000.

- Catch-up provision: Workers age 50 (by the end of the calendar year) or older are permitted to make an additional $1,000 contribution for 2014, for a total 2014 contribution of $6,500.

Roth IRA *(continued)*

Two Requirements for Roth IRA Earnings to be Distributed Tax Free

- Distribution must be made after the five-year holding period has been satisfied.
- Distributions must be made under one of four conditions:
  - Owner is at least 59½ years old
  - Distribution is paid to a beneficiary at death of owner and the five-year holding period is satisfied
  - Owner is disabled
  - Withdrawal is made to pay qualified first-time homebuyer expenses ($10,000 lifetime limit)

Penalty-Free Withdrawals

- Owner can withdraw money prior to age 59½ from a Roth IRA (or traditional IRA) and avoid the 10% excise (penalty) tax on the taxable portion of the distribution (if any), for any of the following reasons:
  - Death
  - Disability
  - Substantially equal periodic payments over life or life expectancy
  - Medical expenses in excess of 10% of adjusted gross income
  - New home purchase ($10,000 lifetime limit)
  - Qualified higher education expenses (i.e., tuition, fees, books, supplies)

Conversions from Traditional IRA to Roth IRA

Money can be converted from a traditional IRA to a Roth IRA regardless of the owner's age, income level or tax filing status. The amount converted is taxed to the owner in the year of the Roth conversion.

Target Market

The Roth IRA is most tax efficient when the owner will be in a higher tax bracket at retirement than at the time of the Roth IRA contribution or conversion:

- A tax-free source of income allows the owner greater flexibility in liquidating other taxable assets at retirement
- There is no requirement to take distributions during a Roth IRA owner's lifetime
- A Roth IRA may be an appropriate choice if the individual expects to defer the start of distributions past the date they attain age 70½, or does not expect to take Roth IRA distributions during their lifetime

SEP – Simplified Employee Pension

Small employer retirement plan using an IRA as the funding/investment vehicle

Employer Contribution Limits

- Employer contribution limit is the lesser of 25% of employee's salary ($260,000 salary cap as indexed for 2014) or $52,000 (this amount may be less for highly compensated employees).
- The employer must contribute an equal percentage for the benefit of all eligible employees with immediate vesting; for example, if a business owner contributes 8% to his or her account, the employer must contribute 8% for all eligible employees, if using IRS Form 5305.
- Employer contributions only; employee salary deferrals are not permitted (exception: SAR-SEP plan); SAR-SEP plans, established prior to Jan. 1, 1997, permit employee salary deferrals (see next page).
- Employer contributions, which are determined on a year-to-year basis, are typically discretionary.

Employer Eligibility Requirement

- 50% of eligible employees must participate in a SEP IRA plan.

Employee Eligibility Requirement

- Participant must have been employed by the company during at least three of the last five preceding years.
- Employee must typically be age 21 or older (however, employer can set plan eligibility age at 18) and have received at least $550 in compensation (as indexed for 2014).

Key Points

- Loans from SEP IRAs are not permitted.
- Distributions are taxed as ordinary income, the same as IRA distributions.

Target Market

- Small employers, sole proprietors or small nonprofit organizations with a limited benefit budget looking to establish their first retirement plan, which is easy to administer.
- Additional factors favoring a SEP IRA: no filing requirements, limited fiduciary liability and more cost-effective administration, as compared to a 401(k) or other profit-sharing retirement plan.

SIMPLE – Savings Incentive Match Plan for Employees
Small employer retirement plan using an IRA as the funding vehicle

Contribution Limits

- Employer contribution limit (employer must select from these two options):
  - 100% match provided on the first 3% of employee's salary deferral (participating employee). **Example: If an employee defers 5% of salary into a SIMPLE IRA, the employer must contribute 3% in employee's account. If employee defers 1% of salary, employer must contribute 1%.**
    - If employer elects this option, the maximum employer contribution is $12,000 (indexed for 2014).
  - 2% non-elective contribution provided for all eligible employees (regardless of participation).
    - If employer elects this option, the maximum employer contribution is $5,200 ($260,000 cap x 2%).
- Employee deferral limit: $12,000 per plan year (indexed for 2014); up to 100% of compensation.
  - Employees age 50 (by the end of the calendar year) or older are permitted an additional $2,500 catch-up contribution for 2014, if the plan permits, for a total elective deferral of $14,500.

Plan Eligibility Requirements

- Any type of business with 100 or fewer employees may establish a SIMPLE IRA; however, no other qualified plan, 403(b), SEP IRA or 457 plan can be maintained.
- Employer must notify participants of 60-day election period prior to the calendar year-end to elect salary deferral or modify a prior election; the adoption deadline is therefore Oct. 1.
- Employer must provide employee with a Summary Plan Description and account statements within 30 days of the end of a calendar year (contributions must be made between Jan. 1 and Dec. 31).
- Employer must cover any employee who earned $5,000 in any two previous years and is expected to earn $5,000 during current year (exception: employees subject to collective bargaining).

Key Points

- SIMPLE IRAs replaced SAR-SEP IRA plans on Jan. 1, 1997.
- Withdrawals can't be restricted; however, withdrawals within the first two years of the employee's initial contribution are subject to a 25% penalty tax in addition to income tax.
- All contributions (employer and employee) are 100% vested immediately.
- Participant loans are not permitted.
- No discrimination testing, annual reporting or administration cost is required of the employer.
- No discrimination testing is required by the employer, meaning highly compensated employees can defer up to $12,000 annually, regardless of the amount lower paid employees defer.

Penalty Tax

- Distributions prior to age 59½ will be subject to a 10% early withdrawal penalty unless such distribution qualifies for one of the following exceptions:
    - Death
    - Disability
    - Substantially equal periodic payments over life or life expectancy of SIMPLE IRA owner
    - Medical expenses in excess of 10% of adjusted gross income
    - Distributions to a nonparticipant pursuant to a qualified domestic relations order

Target Market

- Small nonprofit organizations and small employers with limited benefits budgets looking for a retirement plan that is inexpensive and easy to administer may find a SIMPLE IRA to be a good fit.
- Employers with 401(k) plans in force may not care to switch to a SIMPLE IRA plan because 401(k)s are more flexible and allow the direction of contributions to a targeted group of employees.

SIMPLE 401(k) – Savings Incentive Match Plan for Employees
Small employer retirement plan using a simplified 401(k) as the funding vehicle

Contribution Limits

- Employer contribution requirement (employer must select from these two options):
  - 100% match provided on the first 3% of the employee's salary deferral (participating employee). **Example: If an employee defers 5% of salary into a SIMPLE 401(k), the employer must contribute 3% in employee's account. If employee defers 1% of salary, employer must contribute 1%.**
    - If employer elects this option, the maximum employer contribution is $7,800 ($260,000 cap x 3% in 2014).
  - 2% non-elective contribution provided for all eligible employees (regardless of participation).
    - If employer elects this option, the maximum employer contribution is $5,200 ($260,000 cap x 2%).
- Employee deferral limit: $12,000 per plan year (indexed for 2014); up to 100% of compensation.
  - Employees age 50 (by the end of the calendar year) or older are permitted an additional $2,500 catch-up contribution for 2014, for a total contribution limit of $14,500.

Plan Eligibility Requirements

- Any nongovernmental business with 100 or fewer employees may establish a SIMPLE 401(k); however, no other qualified plan, 403(b) or SEP IRA plan can be maintained.
- Employer must notify participants of 60-day election period prior to the calendar year-end to elect salary deferral or modify a prior election; the adoption deadline is therefore Oct. 1.
- Employee withdrawals cannot be restricted but are subject to income tax and a possible 10% penalty tax.
- Employees are eligible to contribute if they've earned $5,000 and are 21 years of age or have 1,000 service hours in a prior year (employer may exclude nonresident aliens and certain union employees).
- SIMPLE 401(k) plans may be converted to a traditional 401(k) and vice versa.
- The plan must be maintained on a calendar-year basis (i.e., contributions are made from Jan. 1 to Dec. 31).

Key Points

- All contributions (employer and employee) are immediately 100% vested.
- Participant loans are permitted (if allowed by the plan document).
- No discrimination testing or top-heavy[1] testing is required by the employer.
- Employers with SIMPLE 401(k) plans are subject to administrative expenses for plan document filing and amendments, Form 5500 Schedule A IRS filing and IRC Sec. 415 limit testing.

Penalty Tax

- Distributions prior to age 59½ will be subject to a 10% early withdrawal penalty unless such distribution qualifies for one of the following exceptions:
  - Death
  - Disability
  - Substantially equal periodic payments over life or life expectancy of the participant
  - Medical expenses in excess of 10% of adjusted gross income
  - Separation from service after age 55 (one-time exception)
  - Distributions to a nonparticipant pursuant to a qualified domestic relations order (QDRO)

Target Market

- SIMPLE 401(k) plans are more attractive than a SIMPLE IRA plan for businesses interested in loan provisions, more restrictive hours requirements for eligibility, exclusion of employees under age 21 or bankruptcy protection under the Employee Retirement Income Security Act (ERISA).
- Employers with 401(k) plans in force should consider moving to a SIMPLE 401(k) plan if the employer is struggling to meet top-heavy requirements, is unable to meet nondiscrimination testing requirements, or if highly compensated employees are unable to defer up to $12,000 due to a 401(k) failing plan discrimination testing requirements.

1 A plan is considered to be top heavy if the employer's contributions to key employee accounts are greater than 60% of the employer contributions to non-key employee accounts.

SIMPLE IRA and SIMPLE 401(k): Major Differences

	SIMPLE IRA	SIMPLE 401(k)
Employee Eligibility Requirements	Any employee earning $5,000 or more in any two prior years and expected to earn $5,000 in the current year	Any employee earning $5,000 and the later of 21 years of age or 1,000 service hours in a prior year (may be less pursuant to plan terms)
Employee Deferral Limit	$12,000 per plan year, up to 100% of compensation	$12,000 per plan year, up to 100% of compensation
Employer Contribution Limit	If the employer elects the 3% deferral option, up to $12,000 annually	If the employer elects the 3% deferral option, up to $7,800 annually ($260,000 x .03) If the employer elects the 2% deferral option; up to $5,200 annually ($260,000 x .02)
Participant Loans	Not permitted	Permitted if allowed by plan document
Rollovers	Permitted to IRA without penalty only after two years — may roll into another SIMPLE IRA prior to two years	Permitted to IRA or qualified plan immediately
Excise Tax	Withdrawals during the first two years subject to a 25% excise tax; 10% thereafter until employee attains age 59½	Withdrawals subject to 10% penalty tax on distributions prior to age 59½
Competitive Advantage	Minimal administration expenses, and no 5500 filings or 415 limit testing required	Loans permitted; may have more restrictive eligibility requirements; exclusion of employees under 21; and bankruptcy protection under ERISA

Defined-Benefit Pension Plan – *A retirement plan in which contributions are based on what is needed to provide determinable, future benefits to plan participants*

Employer Contribution Limits

- Employer contributions are limited to the lesser of $210,000 or 100% of the employee's highest three years' (consecutive) compensation (indexed for 2014).
- Annual compensation taken into account for qualified plans is $260,000.
- Deduction of contributions is based on actuarial assumptions and computations; consequently, an actuary must determine plan deductible contribution limit.
- Gains in excess of actuarial assumptions may be used to reduce contribution in the following year.

Key Points

- Allows an employer to create substantial retirement benefits for employees.
- Can be used in conjunction with, or in lieu of, a defined contribution plan.

412(e)(3) Plan – *A defined-benefit plan funded exclusively with life insurance and/or annuities to create a guaranteed retirement income benefit*

412(e)(3) Plan Opportunities

- Exempt from minimum funding requirements because 412(e)(3) plans are fully insured.
- Tax-deductible contributions not subject to the funding limitations of a traditional qualified plan; as a result, contributions are generally larger and more flexible.
- Easier to implement, less costly and less administratively complex to employ than a typical defined benefit pension plan.

How it Works

The plan trustee purchases a combination of life insurance and annuities within the 412(e)(3) plan to fund future retirement income benefits for plan participants. The plan must be level funded and must begin when participants have met eligibility requirements and must end no later than predetermined retirement date.

Target Market

Used by small businesses (often 10 or fewer employees) that are stable, successful, profitable and have a significant and consistent cash flow.

401(a) Plans

401(a) Plan – *A qualified plan set up as either a profit-sharing or money-purchase plan*

Profit-Sharing Plan

Employer Contribution Limits

- Lesser of $52,000 or 100% of employee's salary (indexed for 2014)
  - Employer contributions occur in years elected by the employer and are strictly optional.
  - Employer contributions can be discretionary and/or matching (based on employee's 401(k) deferral).
  - Employer contributions are deductible up to 25% of an employee's compensation, with a 2014 maximum of $52,000.
  - Employer contributions depend on the plan document and must be "substantial and recurring."

Employee Deferral Limit

- Nondiscriminatory amount of after-tax contributions, if allowed by plan document
  - If employee contributions are permitted by the plan document, they are 100% vested immediately.

Types of Profit-Sharing Plans

- Age-weighted profit-sharing plan: unique type of plan designed to allow contributions to be allocated among employees in varying amounts based on each employee's age
  - Age-weighted allocations may work best when there is a significant age disparity between the company owner and its employees.
- New comparability (cross-tested) profit-sharing plan: unique type of plan designed to allow contributions to be allocated among employees in varying amounts, based on each employee's age, compensation and/or job classification

Money-Purchase Plan

Employer Contribution Limits

- Lesser of $52,000 or 100% of employee's salary (indexed for 2014)
  - Employer contributions are mandatory and based on a percentage of the employee's salary.
  - Employer contributions only: the employee is not permitted to contribute to this plan.

Key Points

- Loans are permitted if allowed by the plan document.
- If employee separates from service, the vested portion may roll over to an IRA established by the former employee or to a new employer's retirement plan, if permitted by new employer's plan.
- Distributions may be made under other specific conditions, including:
  - Participant (employee) must be at least 59½ years old and plan document allows in-service distributions.
  - Participant (employee) becomes disabled (as defined by the Internal Revenue Code).
  - Distribution is paid to a beneficiary as a result of participant's death.
- May be less desirable than a profit-sharing plan due to lack of employee salary deferrals into a money purchase plan and mandatory annual employer contributions.

Penalty Tax

- Distributions before age 59½ will be subject to a 10% early withdrawal penalty except when due to:
  - Death
  - Disability
  - Substantially equal periodic payments over life or life expectancy
  - Medical expenses in excess of 10% of adjusted gross income
  - Separation from service after age 55
  - Distribution to a nonparticipant pursuant to a qualified domestic relations order (QDRO)

Target Market

- Employers seeking to enhance retirement benefits and attract and retain employees.
- Small businesses (fewer than 100 participants) may be eligible for a tax credit up to 50% of the first $1,000 of start-up, administration and education expenses for the first three years of a new retirement plan.

401(k) Plan – *A qualified profit-sharing plan with a salary deferral feature*

Employer Contribution Limits

- Lesser of $52,000 or 100% of employee's salary (indexed for 2014)
  - This limit includes what the employee is permitted to contribute by elective deferral into his or her account.
  - Employer contributions can be discretionary and/or matching (based on employee's 401(k) deferral).
  - Employer contribution is not mandatory unless specified in the plan document or if plan is top-heavy; however, if a plan is considered top heavy, the most an employer may contribute is 3% to all eligible employees.
  - Employer contributions vesting schedule must be in accordance with plan document.

Employee Deferral Limit

- $17,500 per plan year (indexed for 2014) up to 100% of compensation
  - Employee contributions are 100% vested immediately and cannot be forfeited.
  - Employees age 50 (by the end of the calendar year) or older are permitted to make an additional $5,500 catch-up contribution for 2014, for a total annual elective deferral contribution limit of $23,000.

Key Points

- Loans are permitted if allowed by the plan document.
- If employment changes, participant's vested portion may roll over to a plan offered by new employer, if permitted by new employer's plan.
- If employee separates from service, the vested portion may roll over to an IRA.
- Withdrawals from 401(k) plans are substantially restricted, since its purpose is retirement funding.
- Distributions may be made under other specific conditions, including:
  - Participant (employee) must be at least 59½ years old and plan document allows in-service distributions.
  - Participant (employee) becomes disabled (as defined by the Internal Revenue Code).
  - Distribution is paid to the beneficiary as a result of participant's death.
  - In-service withdrawals taken as permitted by Internal Revenue Code and plan document.
  - A qualified domestic relations order (QDRO) demands a required distribution.
  - Separation from service.

IRS Required Testing

- **Top-Heavy Test:** A plan is considered to be top-heavy if the employer's contributions to key employee accounts are greater than 60% of the employer contributions to non-key employee accounts.
- **Actual Deferral Percentage (ADP) Test:** An extra nondiscrimination test required by 401(k) plans that restricts highly compensated employees from deferring a percentage of their annual salary far above the percentage deferred by non-highly compensated employees; the plan must satisfy either the 1.25% or the 200%/2% ADP test.
- **Safe Harbor Opportunity:** Highly compensated employees may contribute the full $17,500 deferral limit permitted for 2014, if a 401(k) plan satisfies one of the following safe harbor requirements:
  - Matching contribution by the employer of 100% of the first 3% deferred and 50% of the next 2% deferred
  - 3% nonelective employer contribution to all eligible employees (this option is the default selection for top-heavy plans)

Penalty Tax

- Distributions prior to age 59½ are subject to a 10% early withdrawal penalty unless it qualifies for one of the following exceptions:
  - Death
  - Disability
  - Substantially equal periodic payments over life or life expectancy
  - Medical expenses in excess of 10% of adjusted gross income
  - Separation from service after age 55
  - Distributions to nonparticipants pursuant to a qualified domestic relations order (QDRO)

Target Market

- It is a proven method for employers to attract and retain employees.
- Small businesses (fewer than 100 participants) may be eligible for a tax credit up to 50% of the first $1,000 of start-up, administration and education expenses for the first three years of a new retirement plan.

Designated Roth 401(k) Accounts

401(k) designated Roth contributions are after-tax salary contributions that can be accepted by 401(k) plans allowing such contributions.

- If a 401(k) plan adopts a designated Roth account feature, employees can designate some or all of their elective contributions as designated Roth contributions, which are included in gross income, rather than having them classified as traditional, pre-tax elective contributions.
- Designated Roth contributions must be kept separate from previous and current 401(k) pretax elective contributions; a separate, designated Roth account must be established for each participant making designated Roth contributions.
- Once a payment is designated as a Roth contribution, it cannot later be changed to a pretax elective contribution.

The American Taxpayer Relief Act of 2012 (ATRA) expanded in-plan Roth conversion rules to 2014 and beyond. Participants in 401(k), 403(b) and 457 retirement plans offering a designated Roth account can convert any non-Roth account to a Roth account within the plan, regardless of whether it is otherwise distributable from the retirement plan at the time of conversion. The new rule does not allow transfers out of the plan to a Roth IRA. As under prior law, converted amounts are subject to tax as ordinary income and not subject to mandatory withholding or 10% early withdrawal penalty.

Employee Contribution: An employee can make contributions to both a designated Roth 401(k) account and to a pre-tax 401(k) account in the same year and in any proportion. However, the combined amount contributed in any one year is limited by the 402(g) limit — $17,500 for 2014 (plus an additional $5,500 in catch-up contributions if age 50 or older) for a total contribution limit of $23,000.

Employer Contribution: Only an employee's designated Roth contributions can be made to designated Roth 401(k) accounts.

Penalty-free Withdrawals: Earnings will be included in gross income unless the participant has maintained a Roth 401(k) account for five years and is either disabled or over age 59½.

401(k) Mirror Nonqualified Deferred Compensation Plan

A nonqualified plan, sometimes used in conjunction with a 401(k) plan, may include a corporate-owned life insurance policy as part of this plan, which allows highly compensated employees to reduce their taxable wage base by contributing pre-tax dollars. It is not restricted by qualified plan rules. The employer cannot take a deduction for the amount deferred into the plan at the time of deferral. The employer's deduction is taken when the benefit is paid to the employee.

- Primary goal is to attract, retain, reward and retire key employees by providing an additional deferral option above amounts allowed with a traditional 401(k) plan.
- A rabbi trust is sometimes used to segregate the assets in the event of a change in company management.
- Participants cannot make up more than 25% of the total number of employees and must be "highly compensated" or "management" personnel.

403(b) Plan – *A tax-sheltered investment used to accumulate retirement savings, typically through salary deferral*

Eligibility

- Available to 501(c)(3) tax-exempt organizations and public schools (for-profit corporations cannot establish a 403(b) plan)
  - 501(c)(3) organizations: nonprofit groups, with special tax exemptions, organized and operated for religious, charitable, scientific or educational purposes at zero-profit levels.
  - Public schools: institutions must maintain a faculty, curriculum and student body (i.e., not available for home schooling situations).

Employer Contribution Limits

- Lesser of $52,000 or 100% of employee's salary (indexed for 2014)
  - Employer contributions can be discretionary and/or matching (based on employee's 403(b) deferral).
  - Employer contributions vesting schedule is in accordance with the 403(b) plan document.

Employee Contribution Limits

- $17,500 per plan year (indexed for 2014) up to 100% of compensation
  - Employee contributions are 100% vested immediately and cannot be forfeited.
  - Employees age 50 (by the end of the calendar year) or older are permitted to make an additional $5,500 catch-up contribution for 2014 for a total contribution limit of $23,000.
  - Prior to Jan. 1, 2002, a maximum exclusion allowance (MEA) calculation was required for each employee to determine the maximum annual contribution permitted; this has been repealed.

ERISA vs. Non-ERISA 403(b) Plans

ERISA 403(b) Plans	Non-ERISA 403(b) Plans
Allows for both employee and employer contributions	Usually allows for employee contributions only, unless permitted by plan document
Employee may be subject to a vesting schedule	Limited to employees with voluntary salary reduction
Employee may be subject to age and service requirements	Individual accounts (participants direct their own investments)
Administrator is responsible for plan and IRS reporting	Often referred to as a tax-sheltered annuity (TSA)

Key Points

- A written 403(b) plan document is required for tax years beginning after Dec. 31, 2009.
- 403(b) contract exchanges/transfers after Sept. 24, 2007 require the issuer to maintain the contract under a written plan document and enter into an information sharing agreement with the sponsoring employer.
- Contracts received in a Rev. Rul. 90-24 exchange/transfer before Sept. 25, 2007 are grandfathered, but grandfathered treatment is not available if the contract is exchanged for another 403(b) contract after Sept. 24, 2007.
- Incidental life insurance, unless grandfathered, cannot be part of a 403(b) plan.
- Loans are permitted if allowed by plan document.
- If employment changes, participant's vested portion may be rolled over to an IRA.
- If employee separates from service, his or her vested portion may be rolled over to an IRA.
- Withdrawals from 403(b) plans are substantially restricted by the Tax Reform Act of 1986.
- Distributions (other than loans) may be made under the following conditions:
  - Participant (employee) must be at least 59½ years old and plan document allows in-service distributions
  - Participant (employee) becomes disabled as defined by the Internal Revenue Code.
  - Participant (employee) separates from service with employer.
  - Participant needs a financial hardship withdrawal (10% excise tax may apply if employee is under 59½).
  - Distribution is paid to a beneficiary as a result of participant's death.
  - Participant (employee) takes a qualified reservist distribution.

Penalty Tax

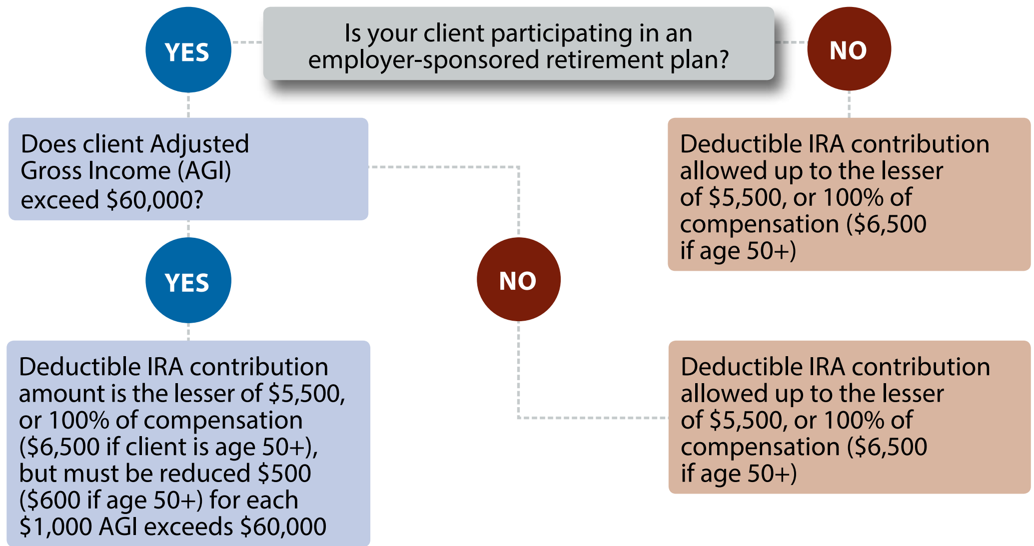
- Distributions prior to age 59½ are subject to a 10% early withdrawal penalty unless such distribution qualifies for one of the following exceptions:
  - Death
  - Disability
  - Substantially equal periodic payments over life or life expectancy
  - Medical expenses in excess of 10% of adjusted gross income
  - Separation from service after age 55 (one-time exception)
  - Distributions to a nonparticipant pursuant to a qualified domestic relations order (QDRO)

Target Market

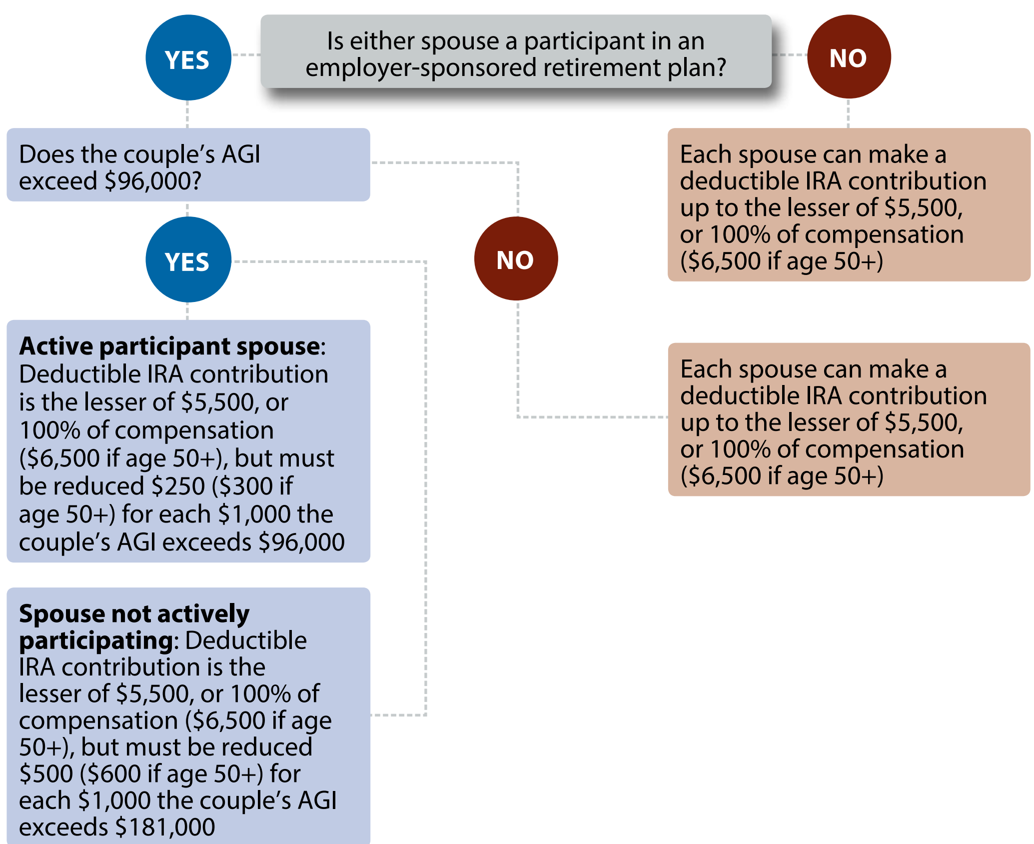
Schools, hospitals, religious organizations, charities and colleges/universities.

2014 Traditional IRA Contributions

Single Taxpayer Client



Married Couple Filing Jointly — Both Employed



Married Couple Filing Jointly — Only One Employed

Is the working spouse a participant in an employer-sponsored retirement plan?

YES

Does the couple's Adjusted Gross Income (AGI) exceed $96,000?

YES

A working spouse may contribute (a) a deductible amount to the IRA equal to $5,500, or 100% of compensation ($6,500 if age 50+), but must be reduced $250 ($300 if age 50+) for each $1,000 AGI exceeds $96,000, and (b) a deductible amount to the non-working spouse's IRA equal to $5,500, or 100% of compensation ($6,500 if age 50+), but must be reduced $500 ($600 if age 50+) for each $1,000 AGI exceeds $181,000

NO

A deductible contribution up to the lesser of $5,500, or 100% of compensation can be made to both the IRA of the working spouse who's not an active participant in an employer-sponsored plan, and to a spousal IRA for the non-working spouse ($6,500 if age 50+)

NO

A deductible contribution up to the lesser of $5,500, or 100% of compensation can be made to both the employer-sponsored IRA and a spousal IRA for the non-working spouse ($6,500 if age 50+)

2014 Roth IRA Contributions

Single Taxpayer Client

Is the client's Modified Adjusted Gross Income (MAGI) more than $114,000?

YES

Nondeductible Roth IRA contribution amount is the lesser of $5,500, or 100% of compensation ($6,500 if age 50+), but must be reduced $333.33 ($400 if age 50+) for each $1,000 the MAGI exceeds $114,000, and further reduced dollar-for-dollar for traditional IRA contributions

NO

A client may make a Roth IRA contribution up to the lesser of $5,500 ($6,500 if 50+) or 100% of compensation, reduced dollar-for-dollar for traditional IRA contributions

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Married Couple Filing Jointly — Both Employed

Does the couple's MAGI exceed $181,000?

YES

Nondeductible Roth IRA contribution amount is the lesser of $5,500, or 100% of compensation ($6,500 if age 50+), but must be reduced $500 ($600 if age 50+) for each $1,000 the couple's MAGI exceeds $181,000, reduced dollar-for-dollar for traditional IRA contributions

NO

Each spouse can make a Roth IRA contribution up to the lesser of $5,500 ($6,500 if age 50+) or 100% of compensation, reduced dollar-for-dollar for traditional IRA contributions

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Married Couple Filing Jointly — Only One Employed

Does the couple's MAGI exceed $181,000?

YES

Nondeductible Roth IRA contribution amount equal to $5,500, or 100% of compensation ($6,500 if age 50+), but must be reduced $500 ($600 if age 50+) for each $1,000 the couple's MAGI exceeds $181,000, to both a Roth IRA and spousal Roth IRA for the non-working spouse, reduced dollar-for-dollar for traditional IRA contributions

NO

A working spouse may contribute the lesser of $5,500 ($6,500 if age 50+) or 100% of compensation to both their Roth IRA and spousal Roth IRA for the non-working spouse, reduced dollar-for-dollar for traditional IRA contributions

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