Retirement Planning Guide

2012 Edition

W&S Financial Group Distributors

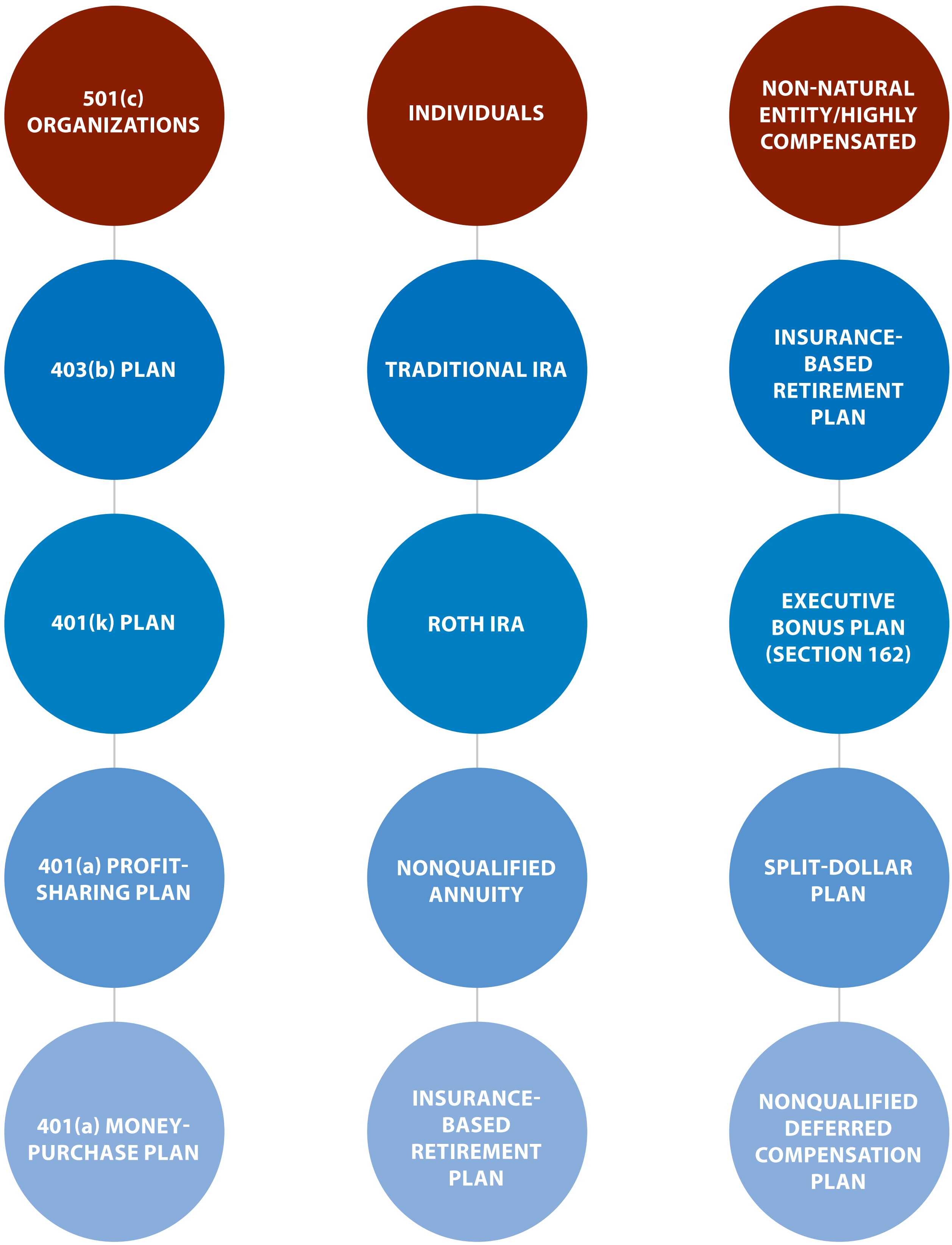
A member of Western & Southern Financial Group

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

Table of Contents

Plan Positioning

SOLE PROPRIETOR Self-employed	SMALL BUSINESSES COMPANIES 100 employees or less	MEDIUM TO LARGE SIZED CORPORATIONS
SEP IRA	SEP IRA	401(k) PLAN
401(a) PLAN	SIMPLE IRA 100 employees or less	401(a) PROFIT-SHARING PLAN
SIMPLE IRA 100 employees or less	SIMPLE 401(k) 100 employees or less	401(a) MONEY-PURCHASE PLAN
SIMPLE 401(k) 100 employees or less	DEFINED CONTRIBUTION 100 employees or less	NONQUALIFIED RETIREMENT PLAN Executive Bonus, Split Dollar or Deferred Comp


501(c) ORGANIZATIONS
403(b) PLAN
401(k) PLAN
401(a) PROFIT-SHARING PLAN
401(a) MONEY-PURCHASE PLAN
INDIVIDUALS
TRADITIONAL IRA
ROTH IRA
NONQUALIFIED ANNUITY
INSURANCE-BASED RETIREMENT PLAN
NON-NATURAL ENTITY/HIGHLY COMPENSATED
INSURANCE-BASED RETIREMENT PLAN
EXECUTIVE BONUS PLAN (SECTION 162)
SPLIT-DOLLAR PLAN
NONQUALIFIED DEFERRED COMPENSATION PLAN

***IRA** – Individual Retirement Account*

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

Contribution Limits

- Annual contribution limit for individuals is the lesser of $5,000 or 100% of compensation; the $5,000 limit includes contributions for both a traditional IRA and Roth IRA combined.
- Married couple's maximum annual contribution is lesser of $10,000 or 100% of compensation; each spouse must maintain his or her own separate IRA, and the $5,000 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 for 2011, which makes the annual contribution limit $6,000 for workers age 50 or older. These amounts are unchanged for 2012 contributions.

IRA Eligibility and Deductibility

- Any US taxpayer under age 70½, who receives compensation, can make a traditional IRA contribution.
- If neither the taxpayer nor the taxpayer's spouse is an active participant in an employer-sponsored retirement plan, all their IRA contributions are deductible.
- If an individual is not an active participant in a retirement plan but the individual's spouse is, then the non-active participant's IRA contributions are deductible if the couple's income is below a certain limit (i.e., $173,000 or less for full deduction; more than $173,000 but less than $183,000 for partial deduction, indexed for 2012).
- If an individual is an active participant in a retirement plan, then the IRA contributions are deductible if the taxpayer's adjusted gross income (AGI) falls below a certain limit. (See chart on the next page.)

2012 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	$58,000 or less	More than $58,000 to $68,000	$68,000 or more
Married, filing jointly	$92,000 or less	More than $92,000 to $112,000	$112,000 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 7.5% 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)s, 457s, 403(b)s, SEP IRAs and SIMPLEs.

Definition: *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 can qualify to be distributed tax free; 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 $5,000 or 100% of compensation; this $5,000 limit includes contributions for both a traditional IRA and Roth IRA combined. 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 $110,000.
  - Contributions are phased out for single taxpayers with MAGI between $110,000 to $125,000.

- Married couple's maximum annual individual contribution is lesser of $5,000 or 100% of compensation; each spouse must maintain his or her separate traditional and/or Roth IRA. The $5,000 limit applies to each spouse separately.

  Caveat:
  - Full contribution is permitted for married joint filers with MAGI up to $173,000.
  - Contributions are phased out for married joint filers with MAGI between $173,000 to $183,000.
  - 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 $110,000 to $125,000.

- 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 2011, for a total 2011 contribution of $6,000.
- The maximum annual contribution limits of $5,000 (under age 50) and $6,000 (age 50 or older) are unchanged for 2012 contributions.

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:
  - Participant is at least 59½ years old
  - Distribution is paid to a beneficiary at death of participant and the five-year holding period is satisfied
  - Participant is disabled
  - Withdrawal is made to pay qualified first-time homebuyer expenses ($10,000 lifetime limit)

Penalty-Free Withdrawals

- Participant 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 7.5% 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 taxable assets at retirement
- There is no requirement to take distributions during a Roth IRA owner's lifetime
- A Roth IRA may be a good 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*

***Definition:** 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 ($250,000 salary cap as indexed for 2012) or $50,000 (this amount may be less for highly compensated employees).
- The employer must contribute an equal percentage to 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 January 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 eligibilty age at 18) and have received at least $550 in compensation (as indexed for 2012).

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.

SAR-SEP *– Simplified employee pension with employee contributions*

SAR-SEP

- SAR-SEP plans, which allowed for employee salary deferrals, were permitted to be established prior to Jan. 1, 1997.

Contribution Limits

- Employee deferral limit (SAR-SEPs only) is the lesser of $17,000 or 25% of employee's compensation.
    - Employee's compensation for purposes of calculation is capped at $250,000 (indexed for 2012).
    - Employees age 50 (by the end of the calendar year) or older are permitted to make an additional $5,500 catch-up contribution for 2012, for a total elective deferral limit of $22,500.

Penalty Tax

- Distributions prior to age 59½ will be subject to a 10% early withdrawal penalty unless the withdrawal qualifies for one of the following exceptions:
    - Death
    - Disability
    - Substantially equal periodic payments over life or life expectancy of SEP IRA owner
    - Medical expenses in excess of 7.5% 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)

***SIMPLE** – Savings Incentive Match Plan for Employees*

***Definition:** 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 $11,500 (indexed for 2012).
  - 2% non-elective contribution provided for all eligible employees (regardless of participation).
    - If employer elects this option, the maximum employer contribution is $5,000 ($250,000 cap x 2%).
- Employee deferral limit: $11,500 per plan year (indexed for 2012); 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 2012, if the plan permits, for a total elective deferral of $14,000.

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 October 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 1/1 and 12/31).
- 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 January 1, 1997.
- Withdrawals can't be restricted; however, withdrawals in the first two years of the employee's contributions 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 by employer.
- No discrimination testing is required by the employer, meaning highly compensated employees can defer up to $11,500 without for the amount lower paid employees are deferring.

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 7.5% of adjusted gross income
    - Separation from service after age 55 (one-time exception)
    - 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** – Savings Incentive Match Plan for Employees*

***Definition:** 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 $7,500 ($250,000 cap x 3%).
  - 2% non-elective contribution provided for all eligible employees (regardless of participation).
    - If employer elects this option, the maximum employer contribution is $5,000 ($250,000 cap x 2%).
- Employee deferral limit: $11,500 per plan year (indexed for 2012); 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 2012, for a total contribution limit of $14,000.

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 October 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 1/1 to 12/31).

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 7.5% 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 the following: 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 $11,500 due to a 401(k) failing plan discrimination testing requirements.

401(k)

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	$11,500 per plan year, up to 100% of compensation	$11,500 per plan year, up to 100% of compensation
Employer Deferral Limit	If the employer elects the 3% deferral option, up to $11,500 annually	If the employer elects the 3% deferral option, up to $7,500 annually ($250,000 x .03) If the employer elects the 2% deferral option; up to $5,000 annually ($250,000 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

> ***Definition:*** *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 $200,000 or 100% of the employee's highest three years' (consecutive) compensation (indexed for 2012).
- Annual compensation taken into account for qualified plans is $250,000.
- 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

> ***Definition:*** *A defined benefit plan that is 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 (six or fewer employees) that are stable, successful, profitable and have a significant and consistent cash flow.

Profit-Sharing Plan

- A qualified plan that is structured so that contributions are made only by the employer into a participant's account in years when the employer chooses (not necessarily based on profit)
    - Employer contributions must be considered "substantial and recurring."

Money-Purchase Plan

- A qualified plan that requires mandatory employer contributions, based on a percentage of employee's compensation
    - Given the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) improvements to profit-sharing plan deductibility, a money-purchase plan's rigid contribution requirements may make this type of plan less desirable than the flexible contribution options available with a profit-sharing plan.

401(k) Plan

- A qualified plan that allows elective employee salary reduction deferrals and employer funding (restrictions apply)
    - Withdrawals are restricted and significant plan testing is required by the IRS.

403(b) Plan

- A tax-sheltered or tax-deferred annuity similar in structure to a 401(k), but available only for employees of qualified 501(c)(3) tax-exempt organizations and public schools
    - Plan can be funded by either an annuity contract or mutual funds.
    - Salary reduction elective employee deferrals are subject to certain restrictions.

Target-Benefit Plan

- A qualified plan that uses a defined benefit formula to determine the amount of annual contributions; the target benefit amount is not guaranteed by the employer
  - This plan type may be suited for older owner/employees who have not previously established a retirement plan.

Cash-Balance Plan

- A qualified plan that provides a defined benefit at retirement, based on the plan account (bookkeeping) value at termination
  - Benefits are guaranteed by the Pension Benefit Guaranty Corporation (PBGC) (limitations apply).

Stock Plan

- A qualified stock bonus and Employee Stock Ownership Plan (ESOP), is structured like a profit-sharing plan, except funds are used to purchase employer corporate stock
  - Once the stock is sold, participant may further defer paying taxes on the gain by purchasing qualified replacement property within the defined replacement period.
  - Disadvantages are that an ESOP plan lacks investment diversity and liquidity.

Definition: *Qualified plan set up as either a profit-sharing or money-purchase plan*

Profit-Sharing Plan

Employer Contribution Limits

- Lesser of $50,000 or 100% of employee's salary (indexed for 2012)
  - 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 2012 maximum of $50,000.
  - Employer contributions depend on the plan document and must be "substantial and recurring."

Employee Deferral Limit

- Nondiscriminatory amount of after-tax contributions if plan allows
  - 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 $50,000 or 100% of employee's salary (indexed for 2012)
  - 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 deferral and mandatory 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 7.5% of adjusted gross income
  - Separation from service after age 55 (one-time exception)
  - Distribution to a nonparticipant pursuant to a qualified domestic relations order (QDRO)

Target Market

- Great way for employers to enhance retirement benefits, as well as attract and retain employees.
- Small businesses (less 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.

Definition: *Type of qualified profit-sharing plan with a salary deferral feature*

Employer Contribution Limits

- Lesser of $50,000 or 100% of employee's salary (indexed for 2012)
  - 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 must contribute is 3% to all eligible employees.
  - Employer contributions vesting schedule must be in accordance with plan document.

Employee Deferral Limit

- $17,000 per plan year (indexed for 2012) 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 2012, for a total annual elective deferral contribution limit of $22,500.

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 are 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 $17,000 deferral limit permitted for 2012, 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 7.5% of adjusted gross income
    - Separation from service after age 55 (one-time exception)
    - Distributions to nonparticipants pursuant to a qualified domestic relations order (QDRO)

Target Market

- It is a great way for employers to attract and retain employees.
- Small businesses (less 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 a newer type of contribution that can be accepted by 401(k) plans that allow such contributions.

- If a 401(k) plan adopts this 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 completely 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.

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 - $17,000 for 2012 (plus an additional $5,500 in catch-up contributions if age 50 or older) for a total contribution limit of $22,500.

Employer Contribution: Although the employer can make matching contributions on designated Roth contributions, 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 had the 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, often used in conjunction with a 401(k) plan: a corporate-owned life insurance policy can be used as a component of this type of plan, which allows highly compensated employees to reduce their taxable wage base by contributing pretax dollars to the plan. Nonqualified deferred compensation plans are not restricted by qualified plan rules. The employer does not get a deduction for the amount deferred into the plan at the time of deferral. The deduction is taken when the employer pays the benefit 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 often used to segregate the assets in the event of a company takeover.
- Participants cannot make up more than 25% of the total number of employees and must be "highly compensated" or "management" personnel.

Definition: *Tax-sheltered investment used to accumulate savings (typically through salary deferral) for retirement*

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., no home schooling).

Employer Contribution Limits

- Lesser of $50,000 or 100% of employee's salary (indexed for 2012)
  - Employer contributions can be discretionary and/or matching (based on employee's 403(b) deferral).
  - Employer contributions vesting schedule is in accordance with its plan document.

Employee Contribution Limits

- $17,000 per plan year (indexed for 2012) 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 2012 for a total contribution limit of $22,500.
  - Prior to January 1, 2002, a maximum exclusion allowance (MEA) calculation was required for each employee to determine the maximum annual contribution permitted; it has been repealed.

ERISA vs. Non-ERISA

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 investments)
Administrator is responsible for plan and IRS reporting	Commonly referred to as a tax-sheltered annuity (TSA)

403(b) Plans

Key Points

- A written 403(b) plan document is required for tax years beginning after 12/31/09.
- 403(b) contract exchanges/transfers after 9/24/07 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 9/25/07 are grandfathered, but this grandfathered treatment will be lost if the contract is exchanged for another 403(b) contract after 9/24/07.
- Incidental life insurance, unless grandfathered, can not 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) becomes separated from service (employer).
  - Participant is in need of 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) has a qualified reservist distribution.

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
  - Medical expenses in excess of 7.5% 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.

1. Insurance-Based Retirement Plan

2. Executive Bonus Plan (Section 162)

3. Split-Dollar Life Insurance Plan

4. Deferred Compensation Plan — Supplemental Employee Retirement Plan (SERP)

All of these sales concepts can involve the use of a variable or traditional life insurance policy to fund a supplemental benefit for key employees. Often, the challenge for the employer is how to pay for this benefit.

Goal

To pay for a retirement benefit in the most tax-efficient manner

Benefits to the Employer

- Employer may attract, retain, reward and retire talented and valuable employees.
- Selective participation – employer may pick and choose who can participate.
- Plans may supplement existing retirement plans without IRS approval or costly administration.
- Depending on the type of plan, the premium paid by the employer may be deductible.
- Plan design is flexible to meet the employer's intention and employee's needs.
- Plans may solve estate planning and other business needs (e.g., funding buy/sell agreement).
- There are advantages to a life insurance policy; it grows in a tax-deferred manner, the principal can be withdrawn on a tax-free basis and the survivor benefits are generally received income tax free by the beneficiary.

Benefits to the Employee

Tax-free retirement income can be attained (via partial surrenders and loans) if a cash value life insurance policy is set up properly. (Note: a SERP provides a benefit that is taxable to the employee.)

- Survivor benefits are received income tax free by the beneficiary of the policy (excluding SERPs).
- Assets in the policy accumulate tax deferred.
- Increased retirement benefits for the employee and survivor benefits for the beneficiary.
- Does not impact employee's fringe benefits or qualified plan contributions.

1. Insurance-Based Retirement Program

Definition: *Individually owned life insurance plan structured to provide supplemental retirement assets and family protection*

Goal

To supplement retirement income and provide life insurance protection in the event of premature death.

How it Works

- The individual or employer pays the premium to fund a variable or traditional life insurance policy.
- At retirement, the individual may take partial surrenders (up to the amount of premiums paid) and loans from the policy on a tax-advantaged basis (if set up properly) to supplement retirement income.
- This assumes that the contract remains in force and qualifies as life insurance under section 7702 of the Internal Revenue Code, and is not a Modified Endowment Contract (MEC) under section 7702A. Loans and partial surrenders from a MEC are generally taxable and, if taken prior to age 59½, may be subject to a 10% penalty tax. Loans and partial surrenders will reduce any death benefits payable.
- At the participant's death, the beneficiaries of the policy will receive the death benefit proceeds income tax free.

Benefits/Advantages

- Tax advantages: The withdrawal method (i.e., first-in, first-out), depletes the principal in the policy (tax-free) first, followed by subsequent distribution of taxable policy earnings.

Caveat:
In order for the life insurance policy to retain its tax advantages, it must remain in force and not be classified as a MEC. If the policy does lapse, the gain/earnings are taxed as ordinary income.*

- Partial surrenders are distributed on a first-in, first-out basis (after-tax premiums first, as long as policy remains a non-MEC).
- Beneficiaries are provided replacement income in the event of a premature death.
- Beneficiaries receive income tax-free death benefit proceeds (IRC section 101(a)).
- No additional fees, administration or discrimination testing is required.
- Liberal funding levels (unlike a qualified plan).
- Cash value grows tax deferred, providing greater growth potential.
- Cash value in the policy may be available for emergencies or financial planning needs (e.g., college funding, mortgage acceleration).

Target Market

Insurance-based retirement programs can be ideal for sole proprietors, small business owners, or high-net-worth individuals who have maximized other retirement plan contributions and would like to supplement their retirement income in a tax-advantaged manner.

* This assumes contract remains in force and qualifies as life insurance under section 7702 of the Internal Revenue Code, and is not a modified endowment contract (MEC) under section 7702A. Loans and partial surrenders from a MEC are generally taxable and, if taken prior to age 59½, may be subject to a 10% penalty tax. Loans and partial surrenders will reduce any death benefits payable.

2. Executive Bonus Plan — IRC Section 162

Definition: *An executive bonus plan is a method of compensating selected key employees by paying premiums of a life insurance policy on the employee's life*

Goal

To retain and reward key employees by making a taxable contribution into a variable or traditional life insurance policy. The employer contribution is tax deductible by the employer and is a taxable bonus to the employee.

Estate Planning

If the employee desires to exclude the policy from his or her estate upon death, the initial applicant and owner of the policy should be a third party (e.g., spouse or trustee), and the employee should not retain any incidents of ownership in the policy.

Benefits to Employer

- Employer rewards and retains key employees, while supplementing their retirement.
- Selective participation is allowed without violating ERISA nondiscrimination rules.
- Premiums paid by the employer may provide an immediate employer tax deduction.
- Administration cost is minimal due to the simplicity of setup/implementation.
- Amounts of coverage on various employees/executives can differ.
- Plans can be established or terminated without IRS approval or restrictions.

Benefits to Executives

- Supplemental retirement assets can be accumulated.
- Beneficiaries receive income tax-free death benefit proceeds (IRC section 101(a)).
- Key employee/executive controls and owns the policy.
- Cash value grows income tax deferred.

Key Points

- Employer cannot be the owner or a beneficiary of the insurance policy.
- The premium paid by the employer is considered additional compensation to the employee and will be taxed as ordinary income to the employee.
- The premium paid by the employer must be considered "reasonable compensation" when added to all other compensation for the employer to receive a tax deduction.
- If the goal of a plan is to retain key personnel for a set period of time, a written agreement between the employer and employee, such as a Restricted Employee Benefit Agreement (REBA), may assist with meeting this plan objective.

Target Market

- C Corporations
- S Corporations
  - S Corporations may want to consider an executive bonus plan as an alternative to a split-dollar plan.
- Partnerships
- Limited Liability Companies
- Sole proprietorships
- Small business owners

3. Split-Dollar Plan

Definition: *A split-dollar plan is an arrangement to share the cost and benefit of a life insurance policy between the employer and a key employee/executive*

Goal

To retain and reward key employees by splitting the cost of the life insurance while accumulating cash value on a tax-deferred basis.

Benefits to Employer

- Discrimination in favor of owners and key employees is permitted.
- The corporation's share of premiums is secured/protected within in the policy.
- The plan is exempt from ERISA vesting, funding and participation rules.

Policy Ownership

- Endorsement method: The employer owns the policy and the employee's interest is noted as an endorsement to the policy.
    - A written endorsement may be filed with the insurance company issuing the policy or a reference to the endorsement agreement on the carrier's records may be used in lieu of a filing.
    - Employer is also required to provide a plan summary to all participants.
    - Under current regulations, the endorsement method is taxed under the traditional split-dollar agreement economic benefits arrangement described below:
        - Employer pays the premiums required.
        - Employee is taxed on the economic benefit to the extent that the employer pays the premium and is not repaid by the employee.
        - The economic benefit includes the value of current life insurance protection (Table 2001 values or actual term insurance rates), and current access to cash surrender value, to the extent that such access has not previously been taxed.
- Loan regime method: The employee owns the policy, and the employer's interest is secured by an assignment of the contract.
    - Under current regulations, funds provided by the employer under the loan regime method will be treated as a series of below-market-rate loans if the employee is obligated to repay the funds.
    - If the employee is not obligated to repay, the funds will be treated as compensation to the employee.

Target Market

Excellent vehicle for C Corporations or a closely held business that wants to provide additional life insurance or supplemental retirement resources for a limited and select group of key employees.

4. Deferred Compensation Plan — Supplemental Executive Retirement Plan (SERP)

Definition: *A method of compensating a select group of key employees/executives by purchasing a life insurance policy owned by the employer. Plan benefits are paid out at a future date if certain plan contractual obligations are met by the key employee*

Goal

To retain and reward talented/valuable key employees by providing an additional incentive (i.e., deferred compensation) to them (and their families) for remaining employed with the company.

How it Works

The corporation purchases a life insurance policy to help fulfill the contractual arrangement to certain key employees. The cash value and death benefit of the policy are used to offset the employer's financial obligation.

- The contractual agreement is typically designed to guarantee key employees a prearranged payout at retirement (or to their survivors if the employee dies prior to retirement), if they remain employed by and fulfill their contractual obligations to their employer.
- The corporation (employer) owns the life insurance policy and uses it to informally fund the deferred compensation benefits.
- The corporation (employer) is required by contract to provide future benefits to key employees (or the employees' survivors) if they meet their contractual obligation to the employer.
- If key employees do not fulfill their commitment, they forfeit the deferred compensation to the employer.

Target Market

- Used by C Corporations to compensate their executives while retaining maximum control over the policy. Cost recovery for the life insurance expense may be part of a plan design. A tax deduction is available when benefits are paid out to key employees.
- Popular with closely held businesses that would like to provide a substantial benefit to owners and key personnel, without including all employees.

2012 Traditional IRA Contributions

Single Taxpayer Client

Is your client actively participating in an employer-sponsored retirement plan?

YES

Does client have an Adjusted Gross Income (AGI) that exceeds $58,000?

YES

Deductible IRA contribution amount is the lesser of $5,000, or 100% of compensation ($6,000 if client is age 50 or older), but the amount must be reduced by $500 ($600 if age 50 or older) for each $1,000 the client's AGI exceeds $58,000

NO

Deductible IRA contribution allowed up to the lesser of $5,000, or 100% of compensation ($6,000 if client is age 50 or older)

NO

Deductible IRA contribution allowed up to the lesser of $5,000, or 100% of compensation ($6,000 if client is age 50 or older)

Married Couple Filing Jointly — Both Employed

Is either spouse an active participant in an employee-sponsored retirement plan?

YES

Is the couple's Adjusted Gross Income (AGI) more than $92,000?

YES

Active participant spouse: Deductible IRA contribution amount is the lesser of $5,000, or 100% of compensation ($6,000 if client is age 50 or older), but the amount must be reduced by $250 ($300 if age 50 or older) for each $1,000 the couple's AGI exceeds $92,000

Spouse not actively participating: Deductible IRA contribution amount is the lesser of $5,000, or 100% of compensation ($6,000 if client is age 50 or older), but the amount must be reduced by $500 ($600 if age 50 or older) for each $1,000 the couple's AGI exceeds $173,000

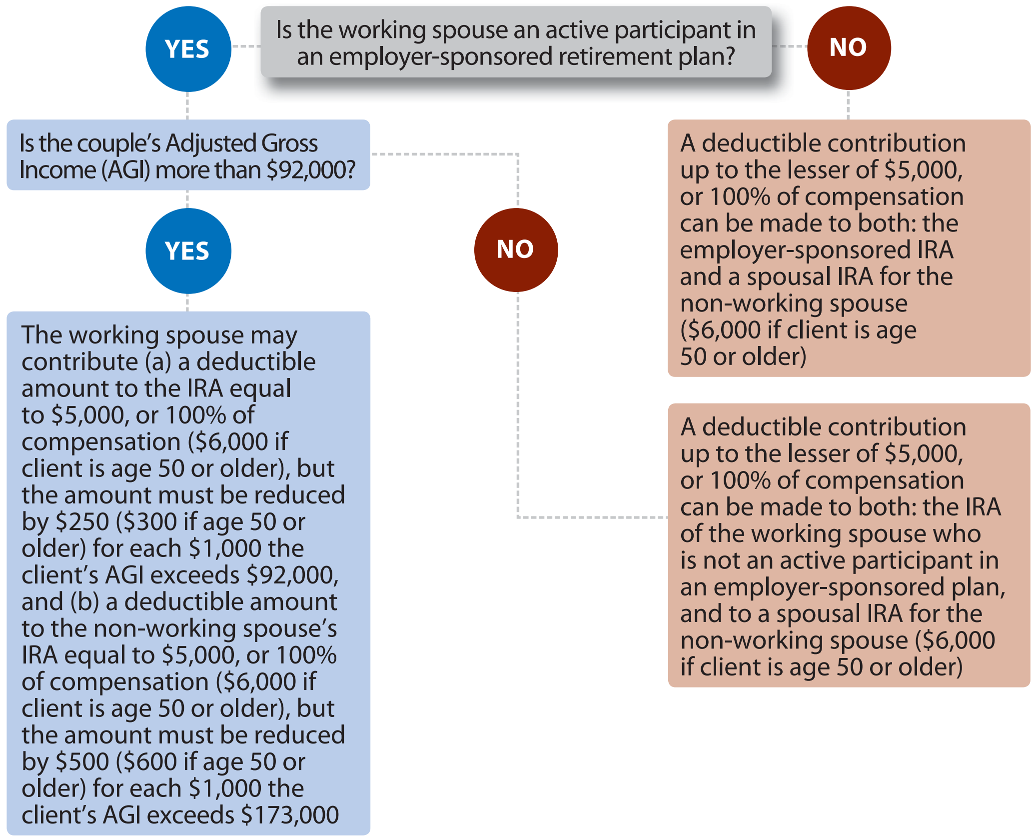
NO

Each spouse can make a deductible IRA contribution up to the lesser of $5,000, or 100% of compensation ($6,000 if client is age 50 or older)

NO

Each spouse can make a deductible IRA contribution up to the lesser of $5,000, or 100% of compensation ($6,000 if client is age 50 or older)

Married Couple Filing Jointly — Only One Employed



2012 Roth IRA Contributions

Single Taxpayer Client

Is the client's Adjusted Gross Income (AGI) more than $110,000?

YES

Deductible IRA contribution amount is the lesser of $5,000, or 100% of compensation ($6,000 if client is age 50 or older), but the amount must be reduced by $333.33 ($400 if age 50 or older) for each $1,000 the client's AGI exceeds $110,000, and further reduced dollar-for-dollar for any contributions made to a traditional IRA

NO

The client may make a Roth IRA contribution up to the lesser of $5,000 ($6,000 if age 50 or older) or 100% of compensation, reduced dollar-for-dollar for any contributions made to their traditional IRA

Married Couple Filing Jointly — Both Employed

Does the AGI for the couple exceed $173,000?

YES

Deductible IRA contribution amount is the lesser of $5,000, or 100% of compensation ($6,000 if client is age 50 or older), but the amount must be reduced by $500 ($600 if age 50 or older) for each $1,000 the couple's AGI exceeds $173,000, and further reduced dollar-for-dollar for any contributions made to a traditional IRA

NO

Each spouse can make a Roth IRA contribution up to the lesser of $5,000 ($6,000 if age 50 or older) or 100% of compensation, reduced dollar-for-dollar for any contributions made to a traditional IRA

Married Couple Filing Jointly — Only One Employed

Does the AGI for the couple exceed $173,000?

YES

Deductible IRA contribution amount equal to $5,000, or 100% of compensation ($6,000 if client is age 50 or older), but the amount must be reduced by $500 ($600 if age 50 or older) for each $1,000 that the couple's AGI exceeds $173,000, to both a Roth IRA and a spousal Roth IRA for the non-employed spouse, further reduced dollar-for-dollar for any contributions made to a traditional spousal IRA

NO

The working spouse may contribute the lesser of $5,000 ($6,000 if age 50 or older) or 100% of compensation to both their Roth IRA and a spousal Roth IRA for the non-working spouse further reduced dollar-for-dollar for any contributions made to their traditional IRA(s)

Notes

Notes

Western & Southern: Our Strength. Your Future.

Built on a heritage dating to 1888, Western & Southern Financial Group (Western & Southern) today stands strong. As a dynamic family of diversified financial services providers, Western & Southern has demonstrated resolve and resiliency throughout challenging economic cycles. We are a *Fortune* 500 company (*FORTUNE* magazine, May 2011). Our financial strength continues to be the cornerstone of our success. We are proud of our top-tier industry ratings, which you can check at WSFinancialPartners.com/ratings. Western & Southern remains committed to helping safeguard your future well-being with our strength, stability and full range of risk management financial solutions.

Western-Southern Life Assurance Company and Integrity Life Insurance Company, both of Cincinnati, OH, and National Integrity Life Insurance Company, Goshen, NY, are members of Western & Southern Financial Group. Integrity operates in DC and all states except ME, NH, NY and VT, where National Integrity operates. Western & Southern Life operates in DC and all states except AK, ME, NH, NY and RI. W&S Financial Group Distributors is an affiliated agency of the issuer. Issuer has sole financial responsibility for its products. Western & Southern Financial Group member companies do not offer tax advice. For specific tax information, consult your attorney or tax advisor.

No bank guarantee	**Not a deposit**	**May lose value**	**Not FDIC/NCUA insured**	**Not insured by any federal government agency**