



National Headquarters  
Seattle/Bellingham

# QUARTERLY NEWSLETTER

**WINTER – 2008**

**The Economy 2009 & more!**

The US Economy 2008/2009; A solution for increased tax rates & Stock Market volatility; Obama, Taxes & You!; Frequently asked questions and answers; 412(e)(3) Plan – Guaranteed Annuity vs. S&P 500 (a must read) Request for a preliminary plan design by our experts!

# HAPPY THANKSGIVING!

## The Economy 2009

In January of 2008, we published our predictions about the economy.

In 2009, we have our new predictions.

(Like any prediction, it is subject to change without notice.)

Last year we made the predictions without giving our observations, this year we plan on adding our analysis and look forward to your comments. Not all predictions pan out as predicted.

**Our predictions made in January 2008 looked like this.....**

### THE U.S. ECONOMY 2008

1. **Look for gas to go over \$4.00 a gallon and in some places \$5.00 by the end of summer.**
2. **The dollar will continue to decline against all major currencies until the end of the year.**
3. **Gold will go over \$1,000.00 an ounce**
4. **Real estate prices will decline 10%**
5. **The stock market will mimic the real estate market.**
6. **Inflation will increase to nearly double digits**
7. **Unemployment will increase to 6% by December**

## Now the good news about the economy –

For those of you who received our predictions in 2008, we were very close on the problems facing the U.S. economy. Number 6 has not come true ...but look for this monster to raise its head in 2009.

## Now our 2009 predictions . . .

## The U.S. Economy 2009

### I. **Look for Unemployment to go over 10%.**

**Analysis:** The economic downturn in 2008 will cause profits to fall at most companies. Many companies look to lower expenses to become profitable again. Where can they lower expenses? In the most costly part of any organization -- Labor. Hence, unemployment will rise.....

### II. **Look for inflation to go over 10%.**

**Analysis:** The government's solution is to "print" money. This is accomplished in creating a \$700 billion dollar bailout and a \$160 billion dollar economic stimulus package. There is even talk on the hill about having another 'round' of economic stimulus. What happens? More dollars circulate and more people can 'bid up' products and services--a/k/a-inflation.

### III. **Your taxes will go up.**

**Analysis:** Both candidates talked about lowering taxes, or at least the marginal rates of taxes. There are many other ways to increase taxes without increasing the marginal rates. One way is to eliminate some deductions or caps. Another way is to increase inflation which will cause salaries to rise putting more people in higher tax brackets. This one is not a surprise.

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**IV. The stock market will rebound.**

**Analysis:** Hold tight. The third quarter and fourth quarter of 2008 will make up for many of the losses for 2008. Why? More \$\$\$ are being printed and many companies hold real estate and other assets which will increase in value. In addition, profits will increase as the companies layoff employees. More profits; -increased value-higher stock prices. There may be a downturn in early 2009 as annual reports look bad, but after that the only way to go is up. For example, stock "A" fell from \$100 a share to \$20 a share an 80% loss. Now the stock goes from \$20 a share to \$40 a share a 100% gain! Love the math!

**V. The auto industry bailout.**

**Analysis:** As goes General Motors, goes the Country-an old saying-but look at their problems, overseas competition, outdated automobiles, high fuel inefficient cars and not a lot of buyers. If the Financial services Companies can receive a bailout-and they don't produce anything-the auto industry will be lining up next.

**It is the season!**

In December, according to many pension journals, 50% of all pensions are established. We have provided you a request for proposal. There is still time to visit or re-visit clients who are looking for safety, security and stability-along with a tax deduction. Provided we have the plan established before the end of the year, we can fund for 2008 up until September 2009!

**WHEN YOU THINK  
PENSIONS  
THINK  
EXECUTIVE BENEFITS**

Executive Benefits Design Group (EBDG) offers qualified plan services through the internet using

low-cost, high-quality video and telephone conferences.

EBDG has developed skilled actuarial services that support financial advisors interested in retirement planning nationwide. EBDG serves as third party administrator to these retirement plan nationwide.

**FREE PLAN DESIGNS:**

We have streamlined our proposal request/data fact finder. As always, we provide a preliminary free plan design. To get your copy of our new form, please email: [priscilla@ebdgonline.com](mailto:priscilla@ebdgonline.com) or visit our website <http://www.ebdgonline.com>

*"What's in a name? In our case it's our strength, our spirit and our concern for people"*

**A SOLUTION FOR  
INCREASED TAX RATES  
& STOCK MARKET VOLATILITY**

**• 412(e) (3) Defined Benefit Plans**

- I. How do you stop higher tax rates, by some estimates as high as 55% of your income when you add social security with state and federal taxes?
- II. The Stock market lost 31% in value in 2008-how do you stop losses?
- III. How do you save for retirement; YOU NEED A PLAN!

**What should you do?**

Create a defined benefit plan that qualifies under 412(e) (3). Section 412(e) (3) is the exception to the funding rules for defined benefit plans. These plans are funded with guaranteed contracts by a major domestic insurance company. Contracts must meet

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Internal Revenue Service regulations. Not all insurance contracts approved in your state may be used in a qualified plan. The returns historically have ranged between 3% and 8% annually as the benefits must be guaranteed by the insurance company. Studies have demonstrated that from 2000-2008, the return on 412(e) (3) plans funded solely with guaranteed annuity contracts (GACS) have outperformed the S & P 500.

412(e) (3) defined benefit plans can be combined with 401(k)/Profit sharing plans to increase tax-deductions allowed for contributions to qualified plans. The 2006 Pension Protection Act modified the rules to allow the contributions to be fully deductible in most cases. All qualified plans must pass operational testing under the Internal Revenue Code Section 401(a)(4) to prove there is no discrimination in favor of owners or other highly compensated employees. 412(e)(3) should be designed by an enrolled actuary licensed before the Internal Revenue Service and the Joint Board. These plans should be administered by a TPA firm that is covered with Errors and Omissions insurance in the event of any operational non-compliance or testing issues. This will mitigate any liability to the plan sponsor and the CPA under section 6694.

To learn more about Fully Guaranteed Defined Benefit Plans contact:

Executive Benefits Design Group at:  
360-756-0776 or email us for more information at:  
nick@ebdgonline.com  
Visit our website at [www.ebdgonline.com](http://www.ebdgonline.com)

Fully insured plans assets are held by major insurance companies such as:  
American National, Lafayette Life, OneAmerica, Ohio National, the UNIFI Companies, Transamerica, Mutual Trust, and others.

## Obama, Taxes and You!



### THE DEBATE BETWEEN McCain & OBAMA

- **\*Will YOU pay more in Tax or.....less.....?**
- **\*Will YOU pay more in Social Security Taxes?**
- **\*Will YOU pay more on Capital Gain Taxes under Mc Cain or Obama?**
- **\*How will the “Death Tax” or “Federal Estate Tax” affect YOU?**
- **\*Will YOUR National Debt be increased during an Obama Administration?**
- **\*Learn about what YOU can do regardless of who gets in Office!**

*“I read Nick Paleveda’s latest book and thoroughly enjoyed it. In his book Nick uses humor, and sometimes even a little light sarcasm, to take us on a light hearted romp through some of the most serious and thought provoking issues facing us today”-*  
.....Kenneth E. Guard, CFP, Ft. Myers Florida.

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“OBAMA TAXES AND YOU!”-  
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Life is too short NOT to plan for early retirement. We can help you decide which plan would work best for you.

We realize that no one plan works for every situation, that's why we offer a wide range of plans that can be customized to suit specific needs of your company, or you as an individual.

412(e)(3) plans are Defined Benefit Retirement Plans which are not subject to the minimum funding standards of ERISA and are not required to engage an actuary to certify contribution requirements. 412(e)(3) Plans provide the highest level of benefit security for individual participants and for the business owner. This means the plan can be a great asset to those who own smaller companies with high incomes and wish to retire in a relatively short time period.

401(k) plans are defined benefit contribution plans where employees can elect to defer a portion of their annual compensation for deposit in the employee's account. Employer contributions may take the form of a matching contribution based on what the employee defers, or they can be based on a formula, or even both. Because 401(k) plans are profit sharing plans, the employer is not required to make annual contributions.

## ANSWERS TO YOUR QUESTIONS RE PENSION PLANS

### • Who should establish a pension plan?

Any business owner whether he is self employed or owns a corporation or partnership should establish a pension plan, particularly if he has significant taxable income and a limited number of employees.

Examples of the types of small business owners who should have a rich pension are:

- a) Physicians/Doctors
- b) Lawyers
- c) Accountants
- d) Doctors/Dentists
- e) Pharmacists
- f) Psychiatrists
- g) Consultants & Independent Contractors

### • Why should one consider setting up a pension Plan?

Retirement plans provide increased tax deductions for your business. There have been tax law changes that permit your business to make tax-deductible retirement contributions for you and other family members or more than half your earnings. You can direct most of your pension dollars to the owners or selected individuals without the plan being considered discriminatory if our pension specialist designs an IRS approved age weighted plan that takes advantage of newly issued IRS regulations and recent tax law changes.

• **How can I improve my existing pension?**

Is it a defined benefit plan? Because you are 40+ years old, the IRS and congress are aware that you have a limited number of years to accumulate monies for your retirement needs and they allow you to reduce your taxable income by as much as 50% or more so that you can timely accumulate as much as \$1m of pre-tax income by the time you reach retirement age. The older you are the larger the % of your income you are able to contribute.

You may not be aware that there are now bigger tax deductions available through tax law changes that were not available when you started your pension plan. We can show you how to get a much larger deduction than you are getting now.

• **What should a small business owner (medical, professional, attorney, etc.) know about a pension plan?**

As a small business owner, you may or may not be aware of how some of the recent tax law changes have impacted small business owners and their retirement plans. There have been tax law changes that permit you to cut your tax bill in half to reward you if you save your income for retirement. We can show you some ideas for tax deductions and retirement benefits that may be available to you.

• **Is it less expensive to have a SEP plan than a customized pension plan?**

Actually, it is just the opposite. A customized pension plan will cost you less because your tax-deductible retirement benefits are increased and the cost of providing benefits to your employees is decreased. A SEP has no setup fee. However, it is far more advantageous to individually design a plan that affords you the opportunity to deduct more than just the 25% of compensation limit of SEP and minimize the cost of benefits for your employees. With a SEP plan, you are only getting a % equal to the % of compensation you contribute for your employees. If you want to maximize your share of the contributions, you may qualify for a profit sharing plan that provides you with contributions of 100% of your compensation and as little as 5% to your employees and all set up charges are tax deductible. As an additional incentive, the 2001 Tax Act now also provides a \$500 tax credit for the first three years that you maintain a customized pension plan.

• **Can I increase the value of my business without increasing my taxes?**

What are you showing in net profits? When will you retire? What will someone pay you for your business at retirement if your business is only showing a limited profit? How would you like to be able to show more profits without paying any more taxes?

**• How can I get a tax deduction when I buy life insurance?**

Did you know that through a pension plan you could pay for life insurance with pre-tax dollars? In the event that you do not live to retirement, who will take care of your spouse and family? By having a death benefit funded through your pension plan, you can provide for your family through life insurance that is subsidized by Uncle Sam. So you have now made a life insurance premium tax deductible, which never happens any other way and you have a pre-retirement death benefit on a tax-free basis.

**• Can my accountant/CPA handle the set up of a pension plan?**

**No.** This is a very specialized field and requires an expert in the pension area. Our objective would be to get your accountant/CPA and our Pension Specialists together for your best benefit. Our Pension Consultant does this on a regular basis. We can have our Pension Consultant call your Accountant/CPA to show this to him.

**• How much can I deduct for Pension Plan Contributions?**

Age	Maximum Income Tax Deductible Pension Contribution	Earned Income Needed for Maximum Pension Deduction	% of Earned Income that is Deductible
39	\$55,421	\$108,204	51.22%
43	\$84,340	\$108,204	77.95%
45	\$107,946	\$108,204	115.78%
48	\$132,291	\$125,722	105.23%
53	\$157,500	\$159,081	99.00%
56	\$174,716	\$104,000	168.00%
61	\$177,479	\$94,278	188.25%
63	\$196,532	\$109,746	179.08%
65	\$217,643	\$128,386	169.52%
70	\$280,903	\$195,476	143.70%
75	\$256,790	\$220,000	116.72%

• **Privacy Policy**

We understand your concern for confidentiality. Therefore, we commit to all of our clients and associates that:

1. We do not divulge your name to any other organization or mailing lists.
2. We take the security of your information seriously. We have instituted every possible precaution to ensure that all of your data and materials are safe as long as they are under our control.

**We would welcome an opportunity to show you what we have to offer in more detail and to learn how we might help your practice.**

**ERISA POLICY CHANGES:**

The Pension Protection Act of 2006 mandates many changes to ERISA. Two provisions that affect 412(e)(3) Defined Benefit plans are discussed here so that you will understand the need to take action with respect to existing plans and changes to expect for new plans.

**First, Normal Retirement Age.**

The IRS issued Treasury Decision effective May 22, 2007, that sets the "normal retirement age", (NRA), at 62 for all qualified plans. If the plan sponsor wants an earlier retirement age, there are several requirements.

For ages 55-62, a good faith determination of the typical retirement age is required from the employer. The statement must give reasons that the lower age is typical retirement age in the industry and deference will be given to the employer's finding.

For ages lower than 55 facts and circumstances must demonstrated to the Commissioner that the age chosen is reasonably representative of the typical retirement age for the industry in which the covered workforce is employed. Since this does not support several policy issues, caution is advised. Professional athletes come to mind as acting in an industry where the normal retirement age is less than 55. Other exceptions to a normal retirement age of 62 are rare.

Our plan designs going forward will set age 62 as the normal retirement age unless the employer can provide us a reason why age 55-62 should be chosen. Only in unusual circumstances will any plan be less than age 55. Our TPA is in the process of reviewing all the plans that have NRA less than age 62. We will be asking employers for reasons as to providing an earlier retirement date for age 55-62. Below age 55 we will recommend the plan be amended to bring the retirement age to at least 55.

**Second, Flexible Premium Deferred Annuities.**

Section 412(e)(3) audits are taking place with other carriers. The service is questioning the flexible premium annuity contracts. A formal Revenue Ruling or Regulation has not been issued by the Internal Revenue Service; however, from our understanding of the audits, the IRS wants to see a level annual premium payment contract, or laddered contracts. The problem is the perceived difficulty of tracking the contributions to individual participants to insure that there is adequate funding for non-highly compensated participants. Our chief actuary, Charles Gramp, has recommended that we implement a procedure for laddered annuity contracts to comply with the "level annual premium payments" under PLR 87-21115. Each annuity will have a single premium representing a contribution for the plan year for each participant.

We are taking these steps to insure that all plans are in compliance with the law and current thinking of the officials at the IRS. In the event that a plan is audited, we will be able to show good faith compliance with the law and regulations. For those

of you presenting proposals to business owners, you can rest assured that the plan designs are in compliance and that your clients will be well served in implementing their retirement plan.

*When it's time to make the move, make it Powerful!*

*Investments aren't like hotdogs. You really should know what's inside them!*

*By the same token, if you knew your portfolio was stuffed with surprises, you'd lose your appetite for investing!*

*As a financial professional, you need expert support and cutting edge technology. We at EBDG understand your expectations, and we've built our company to exceed them!*

*"Intaxication" – Euphoria at getting a refund from the IRS, which lasts until you realize it was your money to start with!*

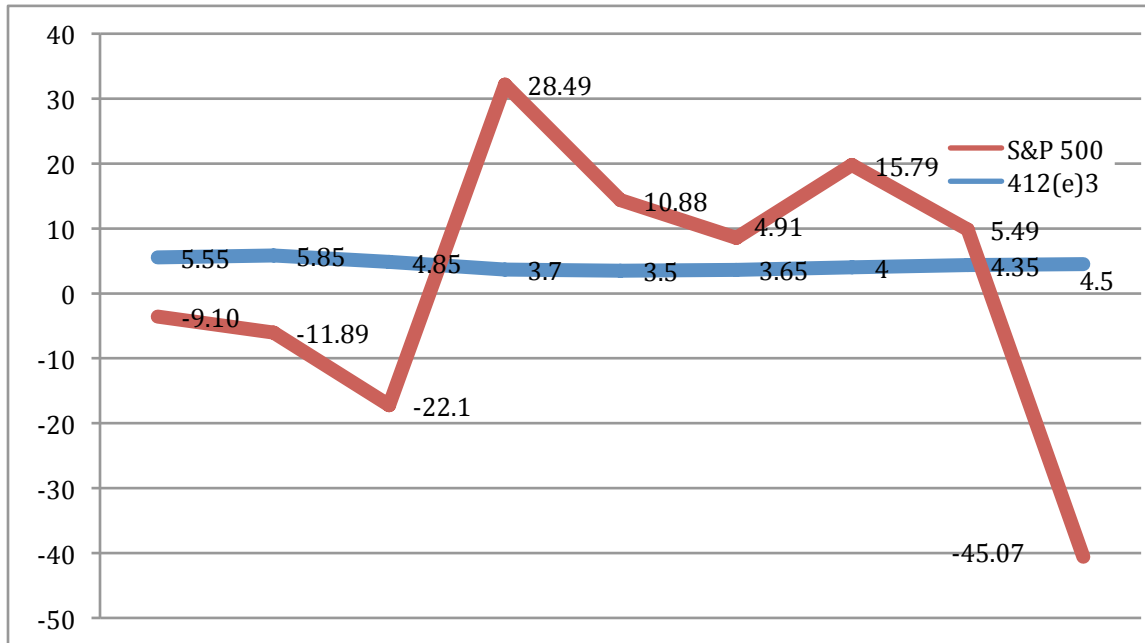
# 412(e)(3) Plan - Guaranteed Annuity vs. S&P 500

Securing a Stable Retirement in an Unstable Market

Comparison of 412(e)(3) Plan - Guaranteed Annuity and the S&P 500 since the year 2000

	Contribution	Running Total	Rate	Contribution	Running Total	Rate
2000	100,000	105,550	5.55	100,000	90,860	-9.10
2001	100,000	217,575	5.85	100,000	168,202	-11.89
2002	100,000	332,997	4.85	100,000	208,130	-22.10
2003	100,000	449,018	3.70	100,000	397,542	28.69
2004	100,000	568,233	3.50	100,000	551,710	10.88
2005	100,000	692,623	3.65	100,000	683,709	4.91
2006	100,000	824,372	4.00	100,000	907,456	15.79
2007	100,000	964,535	4.35	100,000	1,062,745	5.49
2008	100,000	1,112,439	4.50	100,000	638,707	-45.07

Visual comparison of past performance between 412(e)(3) Plan - Guaranteed Annuity and the S&P 500 since the year 2000.



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