

GENERAL QUESTIONS ABOUT WELFARE BENEFIT PLANS AND THE PREPare PLAN

1. What is an IRC Section 419A(f)(6) plan?

It is a type of welfare benefit plan that requires the participation of 10 or more unrelated employer groups. (Often referred to as a “Welfare Benefit Plan” or “WBP”.) A Welfare Benefit Plan is a plan which an employer joins to provide welfare benefits for its employees. Section 419A(f)(6) provides an exemption from the contribution limits placed on most welfare benefit plans.

2. Is a Welfare Benefit Plan a retirement plan?

No. A Welfare Benefit Plan qualifying under §419A(f)(6) is not a retirement plan. Retirement plans are based upon the concept of providing a benefit that will be available after a certain period of service to an employer. A welfare benefit plan provides a benefit upon the occurrence of an event which is beyond the control of the employee, i.e. death, illness, disability, etc.

3. What is a Welfare Benefit Plan?

A welfare benefit plan is a plan providing benefits to eligible employees in the face of unexpected events (i.e. death, illness, disability, etc). These benefits can include life, medical and disability benefits as well as others. These plans can be either single employer or multiple employer plans.

4. Can an employer maintain both a WBP and a qualified retirement plan?

Yes. There is no reason why a company should not provide both welfare and retirement benefits for employees. A qualified retirement plan accumulates funds for providing retirement benefits, whereas a WBP provides benefits such as medical, disability, and life insurance benefits. A WBP should not be considered as a replacement for a qualified plan.

5. How do §419A(f)(6) plans work? What is the purpose of a WBP?

Generally, a §419A(f)(6) plan will work as follows:

1. The employer participates in a plan with 10 or more other participating employer groups.
2. The employer chooses the benefit level for its employees. The benefit level must be based on a nondiscriminatory factor for all employees of a group, such as a “multiple” of the employees’ salary or a flat amount for all employees.
3. The employer makes a contribution to the trust based on the benefit that will be provided.
4. The employer takes an income tax deduction each year equal to the amount of its annual contribution.
5. The trust assets are held in a “pool.” The contributions from the various participating employer groups may be used to provide benefits to any of the participants in the plan.
6. The trust may purchase insurance coverage and/or annuity contracts to fund the benefits. The insurance or annuity values are used to meet the plan’s obligation to provide benefits to the participants and their beneficiaries.
7. Each employee must include the Table 2001 or Table I Cost of life insurance, if life insurance is purchased, which is usually a minor cost in comparison to the actual cost of the coverage.
8. The assets of the trust are beyond the reach of employee’s creditors, including the spouse in the case of divorce.
9. The employer provides the Plan Administrator with annual updated census information.

10. The trustee is an independent third party that holds all trust assets and provides periodic reports to the Administrator.

6. Who are suitable prospects for §419A(f)(6) plans?

Profitable businesses with the following characteristics:

1. Total employees typically should not exceed 25.
2. Rank and file employees that have high turnover rates.
3. A significant difference in income between the owner-employees and the rank and file employees.
4. Companies that can no longer make contributions to their qualified retirement plan because the plan is fully funded or does not benefit the business owner.
5. Individuals who have estate tax problems.
6. Any business entity other than a sole proprietor.

7. Why would a business/ business owner want to participate in a §419A(f)(6) plan?

There are many reasons why a business owner may want to participate in a 419A(f)(6) plan:

1. Can purchase life insurance on a tax-deductible basis.
2. There is typically greater flexibility in funding than a traditional qualified plan.
3. Income and estate tax free death proceeds, if the plan is properly structured.
4. Protection of assets from creditors.
5. Does not discriminate against highly compensated and key employees for benefits.
6. Low administration fees.

8. What kind of benefits can be provided?

Common benefits include death benefits, medical care benefits, disability, long term medical care, educational expenses, and severance. Different plans offer different benefits. “Death Benefit Only” plans are the most prevalent.

9. Are there limits on the amount of contributions an employer may make to a WBP?

No. There are no arbitrary limitations on contributions as found with qualified plans, but the contributions to a WBP must be based on the cost of the benefits provided and must be reasonable.

10. Will the WBP sponsor work with the employer’s advisors in implementing this plan?

Yes. The sponsor (administrator) does not replace any function that is normally performed by the employer’s professional advisors. In fact, the advisor is often an integral part of reviewing the plan and recommending the employer participate in the plan.

The plan administration of the PREPare Plan has in-house legal professionals who can answer any technical questions the employer’s advisors may have.

11. What costs will the company incur in adopting a WBP?

The costs incurred usually include the cost of any insurance used to fund the benefit (the “contribution”), the set-up fee for plan adoption, and annual administration costs.

12. Is a 419A(f)(6) plan a qualified plan and therefore subject to the IRS Rules for Qualified Retirement Plans?

No because it is not a qualified retirement plan.

13. What is the PREPare Plan?

The PREPare Plan is a multiple-employer welfare benefit plan established for employers to provide their employees pre and post retirement death benefits. The plan is intended to qualify under IRC §419A(f)(6).

14. Are the contributions tax-deductible?

Yes, under IRC Sections 162, 419, 419A, 419A(f)(6). Additionally for the deductibility of the post-retirement benefit see Revenue Rulings: Rev. Ruling 69-382, 1969-2C.B 28; Rev. Ruling 69-478 1969-2 C.B. 29; and Rev. Ruling 73-599, 1973-2 C.B. 40.

15. What is the tax treatment of the accumulations?

The trust invests all monies it receives in insurance products. Therefore, there are no accumulations to be taxed.

16. What is the tax treatment of benefits?

Employees must include the economic benefit of their group term life coverage in their current income. These are "Table I" costs or the Table 2001 costs. The guaranteed paid-up participating life policy is an on-going benefit provided through the plan.

17. What is the tax treatment at death?

Benefits on death receive §101(a) treatment and may avoid estate taxes if properly structured.

18. Are there other business advantages to the plan?

Yes. Trust assets may be sheltered from malpractice judgments, bankruptcy, and divorce settlements. Employers can reward long-term employees.

19. Is there any taxable income to the employee?

Table I or Table 2001 costs are applicable to death benefit only plans, which should be reported annually and are generally minimal in comparison to the actual cost of the plan.

20. How is PREPare funded?

Through the purchase by the trust of group-term life insurance contracts and contract riders issued by highly rated life insurance companies.

21. What type of employer groups can participate?

All "C" Corporations, sub-chapter S corporations, and partnerships (LLCs, FLPs, LLPs &c.) can provide life benefits for their employees through the PREPare Plan. Also refer to question #5 for further details.

22. Is there a minimum size corporation?

No. One life qualifies as a group.

23. Do the related employer group rules of IRC Section 414 apply?

No. The related employer group rules of Section 414 apply to a welfare benefit fund maintained by an employer. In the PREPare Plan, the fund is maintained by the trust and therefore is exempt from the rules.

There is, however, no clear regulation or ruling covering this issue. Therefore, in the PREPare Plan, an additional 2% to 8% of deposit is automatically included in the cost of the plan and pooled to provide for the contingency that the above position is challenged. In that event all eligible employees of all related companies will be covered and funded from the pool.

24. Who does the employer cover?

All full-time employees of the employer. The employer can exclude part-time employees, employees under age 21 or who have less than two years of service with the company. However, benefits must not discriminate.

25. How are pre-retirement death benefits determined?

A uniform multiple of the employee's annual wages or a flat amount.

26. What are post-retirement death benefits?

The benefit to all eligible employees upon retirement is a paid-up death benefit, based on age of retirement, years in the plan, and amount of pre-retirement death benefit.

27. Who is the trustee?

Fifth Third Bank

28. Will an annual valuation be prepared?

Yes. Actuarial Administrators, Inc. has been retained to prepare an annual certified actuarial valuation for the trust to determine that proper funding levels have been maintained.

29. Will employers receive an annual report?

Yes. At each participant anniversary the plan administrators, Actuarial Administrators, reviews an employer's group data and requests a new census. An annual report is made to the employer updating requirements and insuring that an employer's plan is properly funded and providing promised benefits.

30. When do you begin to fund for eligible participants?

Pre-retirement benefits: Funding begins when an employee has satisfied the eligibility requirements.

Post-retirement benefits: Method used to fund post-retirement benefit is actuarially determined based on participant's age, compensation and years of service.

31. What happens if the trust experiences gains or losses?

Gains or losses are allocated among the employer participant members of the trust.

32. What happens in the event of an employee termination or if the participating employer terminates the plan?

Any eligible participant will receive his/her benefit in the form of a guaranteed paid-up death benefit, based on age of retirement, years in the plan, and amount of salary. Minimum 5 years of participation to receive any benefit.

33. What happens upon death?

The life insurance benefit is paid to the nominated beneficiary.

34. Are there trust or administrative fees associated with the PREPare Plan?

Yes. Please obtain a fee schedule from your agent. Generally, these are minimal and also tax-deductible.

35. When can I enroll in the PREPare Plan?

Today. Ask you agent for a customized proposal and enrollment kit.

36. Where do I direct questions?

Actuarial Administrators, Inc.
401 N. Michigan Avenue
Suite 2510
Chicago, IL 60611

800-621-3154

TO LEARN MORE ABOUT THE PREPare PLAN OR OTHER EMPLOYEE BENEFIT PLANS
VISIT OUR WEBSITE AT www.cjamarketing.com

