



401K Alternative Plan (401KAP)

Client Profile

Concern:

Company that wants to implement a benefit plan for key executives.

Objectives:

1. Reward, retain and recruit key executives
2. Provide tax favored treatment for executive
3. Obtain tax deduction
4. Golden handcuffs on executive

Status:

1. "C" Corporate tax status, either closely-held or public
2. More than 100 full-time employees, five or more in senior management
3. 30 percent or higher marginal tax bracket
4. Sound cash flow and taxable earnings

Other:

Company's credit-worthiness should not be a concern because the executive becomes a creditor of the corporation.

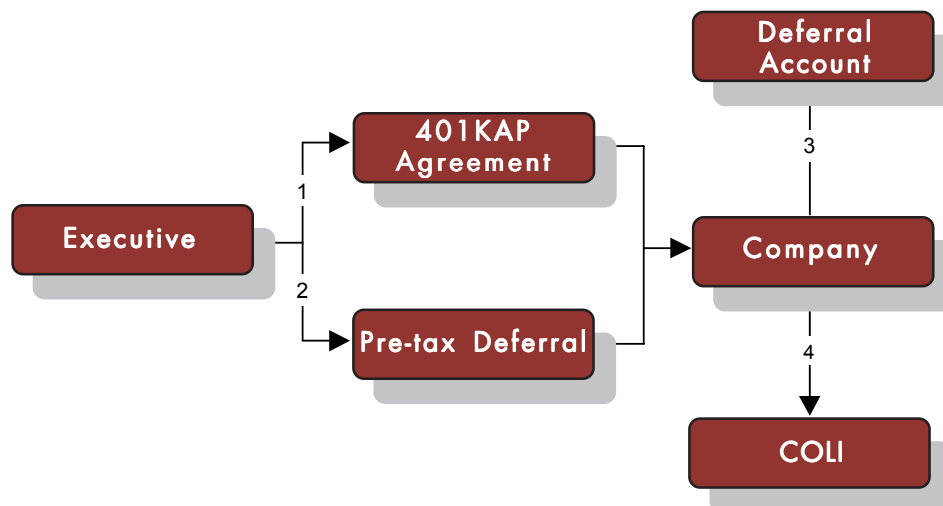
Overview

The 401K Alternative Plan provides a vehicle for businesses to reward, retain and recruit key executives by:

- Tying the executive to the business via *golden handcuffs*;
- Providing the opportunity for the executive to defer pre-tax compensation in amounts above qualified plan limits; and
- Obtaining a income tax deduction when benefits are paid.

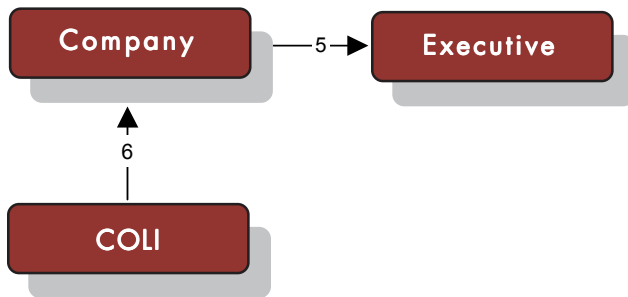
How Does it Work?

1. The executive and company enter into a formal 401KAP agreement.
2. The executive makes election to defer income.
3. The company creates a "Deferral Account" to track executive deferrals, any corporate contributions, and plan "earnings".
4. The company "informally" funds plan and purchases COLI to meet the future benefit obligations.



When the Executive Retires:

5. The company pays executive benefits according to plan.
6. The company recovers cost of benefit from COLI through tax-free loans and withdrawals where feasible.

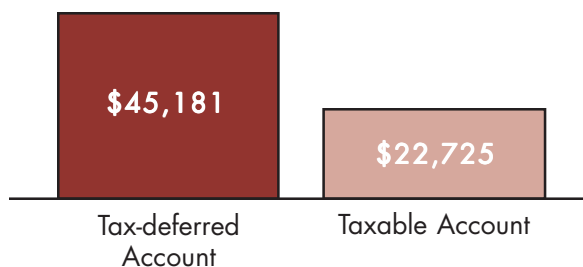


Example

Sample employer adopts a 401KAP and selects a key executive, age 45, to participate in the plan. The sample executive makes a \$10,000 deferral annually, for 20 years. The deferral earns 10 percent gross based upon the performance of his phantom investment. At the end of 20 years, the executive retires and draws a retirement income based upon his account balance at interest in the amount of \$75,302 or \$45,181 after-tax for 15 years to supplement his personal retirement income.

An executive in the 40 percent personal tax bracket would only have \$6,000 after-tax to invest. Earning the same 10 percent gross interest, or 6 percent after-tax, the executive would only be able to obtain an annual income of \$22,725 after-tax.

Hypothetical 15 Year after-tax Income from Account Value



Benefits

For the Employer:

- **Golden Handcuff:** Provides a program to reward, retain and recruit key talent.
- **Discriminatory Benefits:** Freedom to select participants among highly compensated management.
- **Tax-deductible:** Benefits are tax-deductible when paid.
- If informally funded with Corporate Owned Life Insurance (COLI), company may recover costs of plan.

For the Executive:

- Ability to defer pre-tax compensation in amounts above qualified plan limits.
- Tax-deferred return on deferrals.
- Availability of pre-retirement survivor's benefits.



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