

# A 401(k) Look-Alike Plan

## A Supplemental Executive Retirement Plan

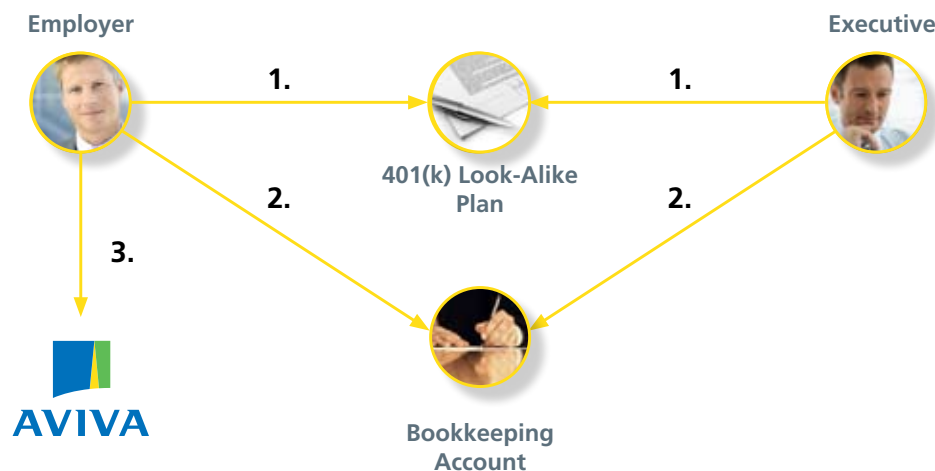


### What is a 401(k) Look-Alike Plan?

Highly-compensated executives are often “penalized” by contribution and benefit restrictions associated with qualified plans, including their 401(k) plans. As a result, qualified plan assets often represent a lower percentage of total retirement income for executives compared with the general employee population.

A 401(k) Look-Alike Plan enables the executive to defer additional income each year. Unlike the qualified 401(k) plan sponsored by the employer, this selective plan can enable executives to defer additional income each year without the normal restrictions. In addition, to mirror the qualified 401(k) plan, the employer provides a match of funds each year, based upon a preset formula and with a vesting schedule.

### While the Executive is employed:



1. The employer and executive enter into a contractual agreement with the executive deferring future compensation to provide additional retirement funds. An employer match and vesting schedule is stipulated in the agreement.
2. On or before June 30 of the prior year, the executive elects to defer compensation before it is earned with the employer making a matching contribution per a prearranged formula in the agreement. Deferrals, the employer’s matching contributions and earnings are credited to an account for each executive participating in the plan.
3. The employer purchases a cash value life insurance policy on the executive’s life. The employer is the owner and sole beneficiary of the policy. The policy provides a death benefit and income tax-deferred accumulations of cash value. The employer pays the entire life insurance policy premium and the insurance premiums are not deductible by the employer.

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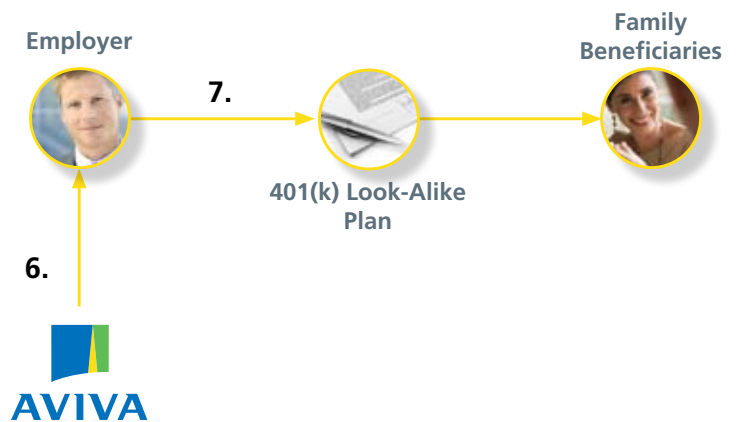
## When the Executive retires:

4. At retirement, the executive receives the promised retirement benefit from the employer and pays income tax on the amount received. The benefit paid by the employer is tax deductible to the company, provided the compensation is deemed reasonable.
5. The employer pays the gross benefit from company assets. The after-tax cost of the benefits could be recovered from the cash values of the life insurance policy.<sup>1</sup>



## If the Executive dies prior to completion of the plan:

6. The corporation generally receives the death proceeds of the life insurance free of income tax. (provided compensation is reasonable). Death proceeds could be subject to corporate alternate minimum taxes. The executive's beneficiaries receive any remaining retirement benefits from the employer and pay income tax on the amount received. The employer gets an income tax deduction for the survivor benefit paid to the executive's beneficiaries
7. The corporation recovers the after-tax cost of any survivor benefits and any other plan costs from the death proceeds.



## Advantages

- Helps recruit, retain and retire executives.
- Plan can discriminate in favor of highly-compensated executives.
- Minimal IRS and ERISA regulatory requirements.
- Helps augment executive's existing qualified retirement plan.
- Recognizes executive's contributions to the success of the business.

<sup>1</sup> Loans and withdrawals reduce any available cash values. In addition, loans against a policy accrue interest at the current rate and decrease the death benefit by the amount of the outstanding loan and interest.

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