

# Small Business Retirement Solutions Reference Guide



## RETIREMENT & BENEFIT PLAN SERVICES



Identifying the best way to prepare for a fulfilling retirement requires thoughtful planning that takes into account your needs as an individual and a business owner, as well as the needs of your employees.

### Why Is a Business Retirement Plan Important?

It is estimated that Americans will need 70-90% of their pre-retirement income to maintain their current lifestyle in retirement.<sup>1</sup> *Are you prepared?*

Merrill Lynch Financial Advisors are committed to helping you understand your retirement plan options and work towards achieving your retirement goals so you can focus on what is most important, meeting the needs of your business, customers and employees.

#### Did You Know?

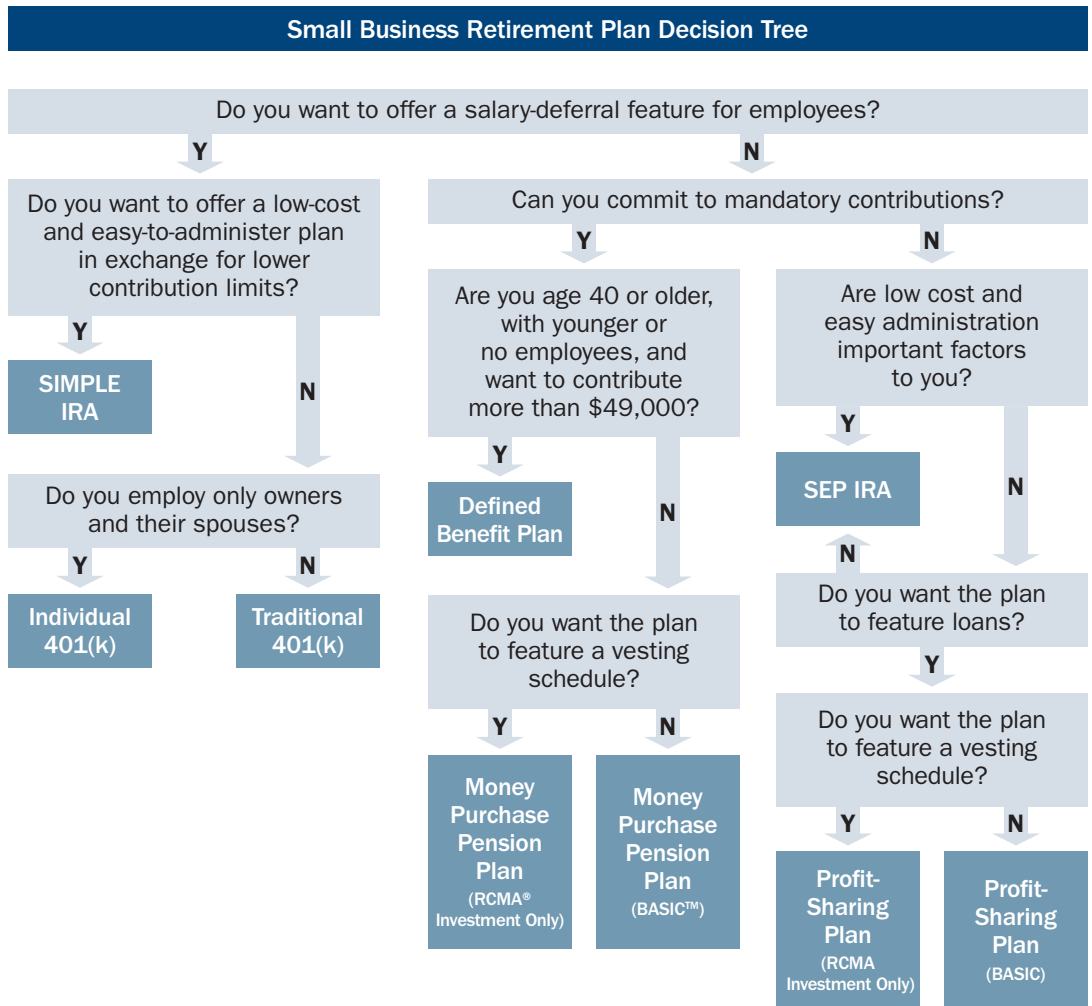
57% of small business owners with a business retirement plan feel very or fairly well prepared for retirement, compared to only 9% of those without a plan.<sup>2</sup>

# Retirement Plan Solutions

There are several benefits to establishing a retirement plan, including:

- **Regular saving for retirement**— Accumulated assets become part of each participant’s larger retirement savings strategy.
- **Tax deductions**— Defer your taxable income and take a tax-deductible business expense.
- **Employee satisfaction**— Attract, retain and reward employees by offering a competitive benefit they may highly value.

The decision tree below provides general guidelines that can be used as a starting point in selecting the plan that is right for you and your business. There are many factors to consider when choosing a plan. You should work with your attorney, tax advisor and a Financial Advisor to identify the retirement solution that is most appropriate for your specific situation.



Contact your Financial Advisor for additional information on retirement plan solutions and to identify which one may be best for you.

# Plan Design Features & Services

You may want to consider the following plan design options to complement your 401(k) or profit-sharing plan. These options can be used in combination or individually, depending on your retirement plan objectives.

**Safe Harbor** makes it easy for you and key employees to take advantage of higher contribution limits and pass certain compliance testing in exchange for mandatory employer contributions.

**New Comparability and Age-Weighted** may enable you to allocate greater employer contributions to a preferred group of employees, such as key employees and workers closer to retirement age, while still passing IRS compliance testing.

**Automated Programs**<sup>3</sup> help to ensure that employees who otherwise might not choose to join or fully participate in your plan have the opportunity to invest in their futures, increase their savings rates and make sound investment decisions through automatic programs.

**Qualified Automatic Contribution Arrangement (QACA)**<sup>3</sup> combines the benefits of a safe harbor plan with an automatic enrollment/automatic increase program. It offers a cost-effective alternative to a 401(k) safe harbor plan because it allows for a lower employer match calculation than safe harbor and employer contributions can vest over time.

## Platform Solutions

Depending on the type of plan you select, Merrill Lynch offers solutions that provide flexibility in plan design, administrative support and investment options.

- MLConnect<sup>®</sup> combines Merrill Lynch's industry-leading investment services with recordkeeping and plan administration services provided through a network of select partners.
- RCMA Investment Link<sup>®</sup> offers automated trading and clearing of mutual fund transactions and the administrative services of regional Third Party Administrators (TPAs) authorized to trade through Investment Link.
- RCMA Investment Only provides a broad range of investment options through an investment-only solution where you can work with a TPA of your choice for recordkeeping, tax reporting and other administrative duties.

## Time Saving Services<sup>4</sup>

- The Merrill Lynch E-Contribs for Small Business Retirement Accounts<sup>™</sup> service (E-Contribs Service) is a Web-based service that allows you to make electronic contributions to SEP, SIMPLE, BASIC and RCMA accounts.
- The Automated Investment Program allows you to systematically purchase shares of most mutual funds at a designated frequency and dollar amount.
- Managed money solutions offer discretionary, fee-based investment services.

	SEP IRA <sup>5</sup>	SIMPLE IRA
<b>Business Profile</b>	<ul style="list-style-type: none"> <li>One or more employees</li> <li>Employers looking for a cost-effective, low maintenance plan</li> <li>Employers looking for a plan where employer contributions are not mandatory</li> </ul>	<ul style="list-style-type: none"> <li>100 employees or less</li> <li>Employers looking for a cost-effective, low maintenance plan</li> <li>Employers that can make mandatory annual contributions</li> </ul>
<b>Plan Establishment Deadline</b>	<ul style="list-style-type: none"> <li>Tax-filing deadline of the business, including extensions</li> </ul>	<ul style="list-style-type: none"> <li>In order to fund for the current year, plan must generally be established by October 1 of that year</li> </ul>
<b>Eligibility Criteria</b>	<ul style="list-style-type: none"> <li>Generally, employees at least 21 years of age, having earned more than \$550 for the year of the contribution and worked three of the past five years</li> </ul>	<ul style="list-style-type: none"> <li>Generally, employees who earned at least \$5,000 in compensation in any two prior years and are reasonably expected to earn at least \$5,000 in the current year<sup>6</sup></li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>Employer contributions are discretionary</li> <li>Employees can make regular additional IRA contributions</li> </ul>	<ul style="list-style-type: none"> <li>Employer contributions are mandatory<sup>7</sup></li> <li>Employee contributions are optional</li> </ul>
<b>Maximum Annual Contributions/Benefits<sup>8</sup></b>	<ul style="list-style-type: none"> <li>Employer contributions limited to the lesser of \$49,000 or 25% of eligible compensation</li> <li>Traditional IRA contributions up to \$5,000 or \$6,000 if age 50 or older</li> </ul>	<ul style="list-style-type: none"> <li>Employer match: dollar for dollar match of employee salary-deferral up to 3% of compensation (can be reduced to as low as 1% in two out of any five years; compensation cap does not apply) or nonelective: a flat 2% of compensation to all eligible employees</li> <li>Maximum employee salary-deferral is \$11,500</li> <li>Employees age 50 or older are eligible to make a \$2,500 catch up contribution</li> </ul>
<b>Vesting</b>	<ul style="list-style-type: none"> <li>Contributions vest immediately</li> </ul>	<ul style="list-style-type: none"> <li>Employer and employee contributions vest immediately</li> </ul>
<b>Withdrawals and Loans</b>	<ul style="list-style-type: none"> <li>Before age 59½, taxable withdrawals—with certain exceptions—are subject to a 10% early withdrawal penalty tax</li> <li>Loans not permitted</li> </ul>	<ul style="list-style-type: none"> <li>Before age 59½, taxable withdrawals—with certain exceptions—are subject to a 10% early withdrawal penalty tax</li> <li>Early withdrawal tax increases to 25% for withdrawals taken within two years of the first contribution</li> <li>Loans not permitted</li> </ul>
<b>Administrative Requirements</b>	<ul style="list-style-type: none"> <li>IRS Form 5500 filing generally <i>not</i> required</li> <li>No discrimination testing</li> </ul>	<ul style="list-style-type: none"> <li>IRS Form 5500 filing generally <i>not</i> required</li> <li>Automatically satisfies discrimination testing</li> </ul>
<b>Merrill Lynch Solutions</b>	<ul style="list-style-type: none"> <li>Merrill Lynch Simplified Employee Pension (SEP) Plan (eligible for E-Contribs Service)</li> </ul>	<ul style="list-style-type: none"> <li>Merrill Lynch SIMPLE Retirement Account (SRA) (eligible for E-Contribs Service)</li> </ul>
<b>Fees</b>	<p>No start-up or annual program administration fees. The following Merrill Lynch fees apply:</p> <ul style="list-style-type: none"> <li>Annual Custodial Fee: <ul style="list-style-type: none"> <li>Single Participant Plan: 0.25% of net assets, subject to a \$60 min. and \$100 max. per account</li> <li>Multiple Participant Plan: 0.25% of net assets, subject to a \$50 min. and \$100 max. per account</li> </ul> </li> <li>Close-Out Fee Per Account: <ul style="list-style-type: none"> <li>\$75 plus any pending custodial fees due on the account</li> </ul> </li> </ul>	<p>No start-up or annual program administration fees. The following Merrill Lynch fees apply:</p> <ul style="list-style-type: none"> <li>Annual Custodial Fee: <ul style="list-style-type: none"> <li>Single Participant Plan: 0.25% of net assets, subject to a \$60 min. and \$100 max. per account</li> <li>Multiple Participant Plan: 0.25% of net assets, subject to a \$50 min. and \$100 max. per account</li> </ul> </li> <li>Close-Out Fee Per Account: <ul style="list-style-type: none"> <li>\$75 plus any pending custodial fees due on the account</li> </ul> </li> </ul>

Traditional 401(k)	Individual 401(k)
<ul style="list-style-type: none"> <li>■ One or more employees</li> <li>■ Employers who want a flexible plan design</li> </ul>	<ul style="list-style-type: none"> <li>■ Businesses with no eligible “non-owner” employees other than spouses (including corporations, partnerships and sole proprietors)</li> <li>■ Employers who seek potentially higher contributions than SEP, SIMPLE or profit-sharing plans</li> </ul>
<ul style="list-style-type: none"> <li>■ Last day of the employer’s taxable year</li> </ul>	<ul style="list-style-type: none"> <li>■ Last day of the employer’s taxable year</li> </ul>
<ul style="list-style-type: none"> <li>■ Age-based exclusions can’t exceed 21 years of age, service-based exclusions can’t exceed one year of service or two years for fully vested employer contributions</li> <li>■ Other exclusions permitted, subject to nondiscrimination testing</li> </ul>	<ul style="list-style-type: none"> <li>■ Owners and spouses only (including corporations, partnerships and sole proprietors)</li> </ul>
<ul style="list-style-type: none"> <li>■ Employer contributions are discretionary</li> <li>■ Employer contributions must be made by the business’s tax-filing deadline, including extensions</li> <li>■ Employee contributions are optional</li> <li>■ Salary-deferrals must be made to the plan as soon as administratively possible, but no later than 15 business days following the month in which the deferral was taken</li> </ul>	<ul style="list-style-type: none"> <li>■ Employer contributions are discretionary</li> <li>■ Employer contributions must be made by the business’s tax-filing deadline, including extensions</li> <li>■ Employee contributions are optional</li> <li>■ Salary-deferrals must be made to the plan as soon as administratively possible, but no later than 15 business days following the month in which the deferral was taken</li> </ul>
<ul style="list-style-type: none"> <li>■ Maximum employee salary-deferral is \$16,500</li> <li>■ Employees age 50 or older are eligible to make a \$5,500 catch up contribution</li> <li>■ Maximum total contributions per employee: Limited to the lesser of \$49,000 or 100% of compensation with a \$245,000 compensation cap per employee</li> <li>■ 401(k) and profit-sharing plans can be combined</li> </ul>	<ul style="list-style-type: none"> <li>■ Maximum 401(k) deferral is \$16,500 (\$22,000 for those age 50 or older)</li> <li>■ Total allocation per employee (employee contributions, employer contributions and forfeiture allocations) is limited to the lesser of \$49,000 (\$54,500 for age 50 or older) or 100% of compensation</li> <li>■ Total tax deductible employer contributions of up to 25% of eligible compensation (20% for self employed) with a \$245,000 compensation cap per employee</li> </ul>
<ul style="list-style-type: none"> <li>■ Employer contributions may vest over time according to plan terms</li> <li>■ Employee contributions vest immediately</li> </ul>	<ul style="list-style-type: none"> <li>■ Employer contributions may vest over time according to plan terms</li> <li>■ Employee contributions vest immediately</li> </ul>
<ul style="list-style-type: none"> <li>■ Loans may be offered at the discretion of the plan administrator</li> <li>■ Hardship and nonhardship withdrawals may be available (if certain conditions are not met, a 10% penalty may apply)</li> </ul>	<ul style="list-style-type: none"> <li>■ Loans may be offered at the discretion of the plan administrator</li> <li>■ Hardship and nonhardship withdrawals may be available (if certain conditions are not met, a 10% penalty may apply)</li> </ul>
<ul style="list-style-type: none"> <li>■ IRS Form 5500 filing required</li> <li>■ Must satisfy discrimination testing (certain exemptions may apply)</li> </ul>	<ul style="list-style-type: none"> <li>■ IRS Form 5500 filing generally not required when plan assets total \$250,000 or less</li> </ul>
<ul style="list-style-type: none"> <li>■ RCMA Investment Only (eligible for E-Contribs Service)</li> <li>■ RCMA Investment Link</li> <li>■ MLConnect</li> </ul>	<ul style="list-style-type: none"> <li>■ RCMA Investment Only (eligible for E-Contribs Service)</li> <li>■ MLConnect</li> </ul>
<ul style="list-style-type: none"> <li>■ Fees vary by provider</li> </ul>	<ul style="list-style-type: none"> <li>■ Fees vary by provider</li> </ul>

Profit-Sharing	Defined Benefit
<ul style="list-style-type: none"> <li>■ One or more employees</li> <li>■ Employers seeking a tax-advantaged way to transfer assets out of the business</li> </ul>	<ul style="list-style-type: none"> <li>■ One or more employees</li> <li>■ Employers with a stable income and the ability to provide employees a specific benefit amount at retirement</li> <li>■ Employers who seek highest level of tax deductible contributions allowed by law</li> </ul>
<ul style="list-style-type: none"> <li>■ Last day of the employer's taxable year</li> </ul>	<ul style="list-style-type: none"> <li>■ Last day of the employer's taxable year</li> </ul>
<ul style="list-style-type: none"> <li>■ Age-based exclusions can't exceed 21 years of age, service-based exclusions can't exceed one year of service or two years for fully vested employer contributions</li> <li>■ Less restrictive eligibility requirements can be established</li> <li>■ Other exclusions permitted, subject to nondiscrimination testing</li> </ul>	<ul style="list-style-type: none"> <li>■ Age-based exclusions can't exceed 21 years of age, service-based exclusions can't exceed one year of service or two years for fully vested employer contributions</li> <li>■ Other exclusions permitted, subject to nondiscrimination testing</li> </ul>
<ul style="list-style-type: none"> <li>■ Employer funded only, contributions are discretionary</li> <li>■ Generally employee contributions are not permitted</li> </ul>	<ul style="list-style-type: none"> <li>■ Employer contributions are mandatory, subject to minimum and maximum funding requirements</li> </ul>
<ul style="list-style-type: none"> <li>■ Employer contributions limited to the lesser of \$49,000 or 25% of eligible compensation with a \$245,000 compensation cap per employee</li> <li>■ Profit-sharing and 401(k) plans can be combined</li> </ul>	<ul style="list-style-type: none"> <li>■ Maximum employer contribution determined by actuarial computation</li> <li>■ Maximum annual single life annuity benefit limited to \$195,000</li> </ul>
<ul style="list-style-type: none"> <li>■ Employer contributions may vest over time according to plan terms</li> </ul>	<ul style="list-style-type: none"> <li>■ Contributions may vest over time according to plan terms</li> </ul>
<ul style="list-style-type: none"> <li>■ Before age 59 ½, withdrawals—with certain exceptions—are subject to a 10% early withdrawal penalty tax</li> <li>■ Withdrawals are typically allowed for termination of employment, termination of plan, attainment of age 59 ½, death or disability</li> <li>■ Loans may be offered at the discretion of the plan administrator</li> </ul>	<ul style="list-style-type: none"> <li>■ Before age 59 ½, distributions—with certain exceptions—are subject to a 10% early withdrawal penalty tax</li> <li>■ Plans typically pay monthly benefits at a normal or Early Retirement Date such as 55 and 65 and may not allow for lump sum distributions at any point</li> <li>■ Loans may be offered at the discretion of the plan administrator</li> </ul>
<ul style="list-style-type: none"> <li>■ IRS Form 5500 filing required</li> <li>■ Nondiscrimination testing may be necessary</li> </ul>	<ul style="list-style-type: none"> <li>■ IRS Form 5500 filing required</li> <li>■ Pension Benefit Guaranty Corporation (PBGC) premium payments and reporting requirements</li> <li>■ Must satisfy nondiscrimination testing</li> </ul>
<ul style="list-style-type: none"> <li>■ BASIC Prototype Profit-Sharing Plan (with Prototype Document Services) (eligible for E-Contribs Service)</li> <li>■ RCMA Prototype Profit-Sharing Plan (with Prototype Document Services) (eligible for E-Contribs Service)</li> <li>■ RCMA Investment Only (eligible for E-Contribs Service)</li> <li>■ RCMA Investment Link</li> <li>■ MLConnect</li> </ul>	<ul style="list-style-type: none"> <li>■ RCMA Investment Only (eligible for E-Contribs Service)</li> </ul>
<p>The following Merrill Lynch fees apply:</p> <ul style="list-style-type: none"> <li>■ \$50 annual prototype fee</li> <li>■ BASIC Prototype Plans Annual Custodial Fee: <ul style="list-style-type: none"> <li>– Employer sponsoring one plan: For each participant account, 0.25% of net assets, subject to a \$60 min. and \$100 max.</li> <li>– Employer sponsoring profit-sharing and money purchase plans: For each participant one account will be charged 0.25% of the combined net assets of the two accounts, subject to a \$80 min. and \$100 max.</li> </ul> </li> <li>■ Investment Only Annual Fee <ol style="list-style-type: none"> <li>1) RCMA Master &amp; RCMA Premium Account (one stand-alone account): \$150</li> <li>2) RCMA Premium Account (two or more stand-alone accounts): \$100</li> <li>3) RCMA II Account: \$80</li> <li>4) RCMA SubAccount: \$50</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>■ Fees vary by provider</li> </ul>

## Defined Benefit Combined with Defined Contribution

- One or more employees
  - Employers with a stable income and the ability to provide employees a specific benefit amount at retirement
  - Employers who seek highest level of tax deductible contributions allowed by law
- Last day of the employer's taxable year
- Age-based exclusions can't exceed 21 years of age, service-based exclusions can't exceed one year of service or two years for fully vested employer contributions
- Defined benefit plan: employer contributions are mandatory, subject to minimum and maximum funding requirements
- Defined contribution plan: employer contributions are discretionary
- Maximum employer contribution determined by actuarial computation
- Maximum annual single life annuity benefit limited to \$195,000
- Can be combined with a profit-sharing or defined contribution feature
- Contributions may vest over time according to plan terms
- Before age 59½, distributions—with certain exceptions—are subject to a 10% early withdrawal penalty tax
- Plans typically pay monthly benefits at a normal or Early Retirement Date such as 55 and 65 and may not allow for lump sum distributions at any point
- Loans may be offered at the discretion of the plan administrator
- IRS Form 5500 filing required
- Pension Benefit Guaranty Corporation (PBGC) premium payments and reporting requirements
- Must satisfy nondiscrimination testing
- RCMA Investment Only (eligible for E-Contribs Service)
- Fees vary by provider

Contact your Financial Advisor for additional information on retirement plan solutions and to identify which one may be best for you.

<sup>1</sup> 2007 IRS Publication 3998, *Choosing a Retirement Solution for Your Small Business*.

<sup>2</sup> *The 2007 Merrill Lynch New Retirement Study: A Perspective From Small Business Owners and Their Employees*.

<sup>3</sup> Availability subject to the services provided by individual MLConnect partners.

<sup>4</sup> May not be available for all products.

<sup>5</sup> For SEP plans established using IRS model form 5305-SEP.

<sup>6</sup> Employers must notify employees of eligibility to participate 60 days before they become eligible and then annually thereafter. Employers must distribute information pertaining to the following year's employer contribution strategy by November 2 to accommodate the 60-day election period.

<sup>7</sup> In order to fund the plan for the current year, the employer must establish the plan on or before October 1 of that year.

<sup>8</sup> Contribution limits and benefits apply for 2010 and 2009. Amounts for subsequent years may vary.

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