

# The Small Business Pension Program

A Qualified Plan Program for Small Business Owners



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# The Benefits of The Small Business Pension Program

As a small business owner, you are faced with the challenge of accumulating enough savings for your retirement, while providing retirement benefits for your employees as well.

As you get closer to retirement, the challenge may be even greater. *The Small Business Pension Program*<sup>SM</sup> has been developed to help older, high-income small business owners with up to five employees maximize their retirement contributions today, while they carefully plan for tomorrow.

If you fit this profile, *The Small Business Pension Program* may enable you to:

- Accumulate assets for retirement faster than with other types of plans currently available
- Build up savings to help you pursue your retirement goals

As with all employer-sponsored retirement plans, contributions to *The Small Business Pension Program* are 100% tax deductible to the business, and all investment earnings grow on a tax-deferred basis. When you eventually take distributions from the plan, they will be taxable as ordinary income.



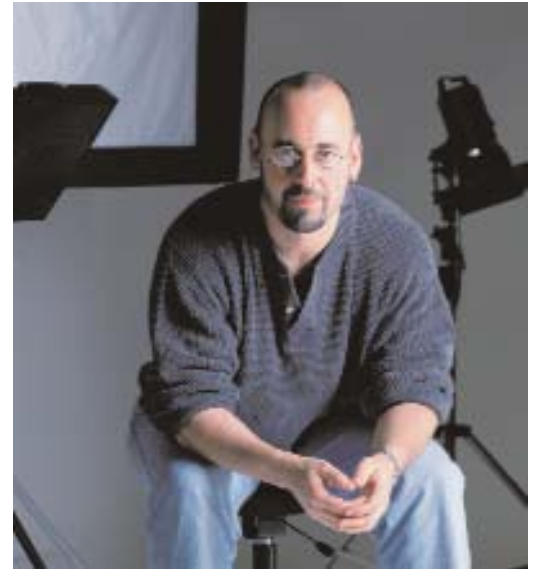
**Make larger tax-deductible contributions today to better prepare for retirement tomorrow.**

# What Makes The Small Business Pension Program Different From Other Plans?

The Small Business Pension Program is a qualified retirement plan, as are profit sharing and 401(k) plans, but it's not a defined contribution plan.

Instead, it is a defined *benefit* pension plan. In defined benefit pension plans, employers choose a specific benefit amount that will be provided at retirement. The employer is then required to make annual contributions to ensure that the benefit can be paid at each participant's retirement. For older individuals with fewer years to accumulate retirement assets, the amount the employer can contribute to the plan is often higher than the amount allowed in defined contribution plans such as SIMPLE IRAs, SEP IRAs, profit sharing plans and 401(k) plans.

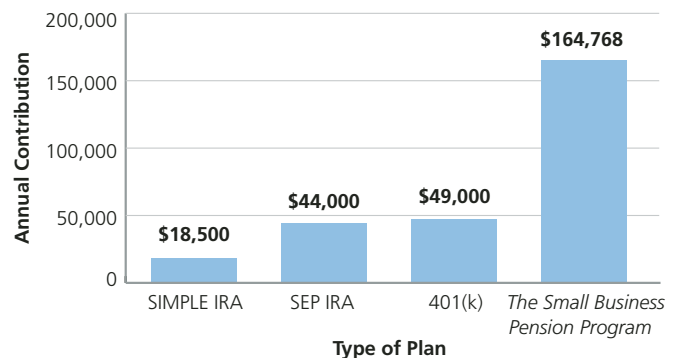
Defined benefit plans have existed for many years and have typically been offered by larger corporations. *The Small Business Pension Program* makes it easier for small businesses to sponsor this type of plan.



## Example

Dr. Carter is a 52-year-old sole practitioner earning \$200,000 annually in W-2 income, since his practice is incorporated. Because of his age, income and intention to retire at age 62, he is permitted by the federal tax code to contribute enough money to pay a benefit at retirement of up to \$175,000 per year (this annual limit is adjusted periodically by the IRS). If he has employees, he will need to fund their retirement benefits as well. If the employees are younger than he is and earn less, the contributions made on their behalf can be significantly lower. An actuary determines the amount that needs to be contributed each year by the employer in order to fund all the retirement benefits, which are deducted from income as business expenses.

**Retirement Plan Annual Maximum Contribution Limits\* for a Participant Age 52 Earning \$200,000 Annually**



\* This hypothetical example is provided for illustrative purposes only and is not intended to represent a specific investment or portfolio. Note that there is no requirement to retire at age 62 or to contribute the maximum amount permitted.

# How The Small Business Pension Program Can Work for You and Your Business

As a business owner, you have the flexibility to set the retirement benefit formula within certain legal parameters.

This means that when you are determining your benefit formula, you can choose the percentage of your compensation that the plan will provide at your retirement as well as your retirement age, within legal limits.

For example, you can set the plan for retirement at age 62 with 100% of compensation (up to the legal limit), retire at age 65 with 50% of compensation, or choose some other formula that you and your tax/legal advisor decide is appropriate for you.

The contribution amount is a function of:

- Your current age
- The retirement age that you establish for the plan
- Your average compensation for the three consecutive years that produces the highest average compensation
- The percentage of compensation you set as your retirement benefit

An actuary is needed to calculate the annual contributions to a defined benefit plan. The actuary for *The Small Business Pension Program* determines the exact amount that needs to be contributed each year to pay the benefit you choose. In addition to considering the above factors, the actuary takes into account the

number of years left to retirement and assumptions about investment performance. As the plan fiduciary, you have the obligation to invest the plan's assets prudently. Because the retirement timeframe is likely to be less than 15 years, investments that minimize volatility are generally recommended.

Depending on the formula you choose, maximum contributions to a defined benefit plan can be as much as \$100,000 or more annually for business owners over age 45. You may want to consult your tax advisor about the amount you can comfortably contribute each year.

By establishing a defined benefit plan, you are making a commitment to fund the annual benefit. However, if your business circumstances change, after a number of years, you can consider modifying the benefit formula or terminating the plan—both subject to IRS rules on plan excesses and shortfalls.

The annual contribution necessary to fund the benefit is mandatory, with potential IRS penalties for failure to fund the required amount. In addition, the annual contribution can vary based on the plan's actual investment returns compared to the actuarial assumptions.

At retirement, you may choose to take the annual benefit from the plan or roll over the plan assets to an IRA to keep them growing on a tax-deferred basis.

# Should You Consider Establishing a Small Business Pension Program This Year?

Your Financial Advisor can help you evaluate The Small Business Pension Program. It is recommended that you meet all of the following criteria before seriously considering it:

- You are age 45 or older
- You fit ONE of these categories:
  - Own a business with either no employees or with five or fewer employees (including yourself). Your business can be either a sole proprietorship, partnership, LLC, S-corp or C-corp
  - Work for yourself as a second occupation
  - Are considered an Independent Contractor rather than an employee
- Typically receive at least \$100,000 in annual earnings from your business OR earn less but can afford to put most of what you earn into the plan
- Are willing to make a significant contribution to the plan for at least three to five years

**If you checked all four boxes, you should discuss *The Small Business Pension Program* with your Financial Advisor today.**

## Call Your Financial Advisor to Get an Estimate of How Much You Can Contribute and Possibly Save in Taxes This Year



Providing sufficient retirement income for you and your employees requires careful planning and investing. A tax-advantaged retirement plan, such as *The Small Business Pension Program*, may be an appropriate way to accumulate assets for your retirement.

Call your Financial Advisor today to learn more about *The Small Business Pension Program* and other retirement plan alternatives available through UBS Financial Services Inc.

Your Financial Advisor can help you assess your personal retirement plan needs as well as those of your business.

He or she can then assist you in exploring the various types of plans available to small business owners. Your Financial Advisor can provide an estimate of the amount you can contribute to a retirement plan and—possibly—save in taxes this year. He or she will then work with you to explore the wide range of investment options available for the plan you choose.

This brochure is intended as general information and should not be taken as legal, accounting or tax advice. You should obtain the advice of your legal and/or tax advisor in making decisions about a retirement plan.



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051229-2154-Q205

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