



Small Business Pension Program Financial Advisor Guide

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Quick Summary

The *Small Business Pension ProgramSM* is a special defined benefit retirement plan program designed for the older, high income small business owner or individual with self-employment income. It is a different type of retirement plan than defined contribution plans, such as 401(k), SEP, money purchase or profit sharing plans which limit annual contributions to \$44,000 per participant. The *Small Business Pension Program* permits eligible clients to make tax-deductible contributions of up to \$100,000 or more each year until retirement. That translates, depending on the client's tax bracket, into as much as \$40,000 or more in actual tax savings each year.

Who's it for?

In general, the *Small Business Pension Program* may be appropriate for a client if he or she is:

- Age 45 or over
- Earns at least \$100,000 per year from self-employment income or from a business with five or fewer employees, including himself/herself.
- Is able to make a significant annual contribution to the plan.
- Expects to be able to make that contribution for at least three years.

A Large Target Market

Good prospects for the *Small Business Pension Program* include:

<p>Professionals:</p> <ul style="list-style-type: none"> • Accountants • Attorneys • Dentists • Physicians 	<p>Independent Contractors:</p> <ul style="list-style-type: none"> • Consultants • Graphic designers • Manufacturer's reps • Real estate agents
<p>Small Businesses:</p> <ul style="list-style-type: none"> • Antique dealers • Contractors • Dry cleaners • Movers • Retail stores • Wholesale distributors 	<p>Individuals with Supplemental Self-employment Income:</p> <ul style="list-style-type: none"> • Independent members of corporate boards • University professors with consulting income • Writers or others with royalty or licensing income.

The general rule of thumb is that if an individual is age 45 or over and has ANY earned income from a source other than an employer with six or more employees, then that individual may be a prospect. Use the CHECKLIST on page 10 to determine if an individual may qualify for a *Small Business Pension Program*.

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Investment Flexibility

The *Small Business Pension Program* is flexible in the investments permitted (essentially any kind that would be permitted in other kinds of retirement plans). Like all qualified retirement plans, the employer has fiduciary responsibility over the investments in the plan.

How Does it Work?

With the *Small Business Pension Program*, the client estimates the amount of money his/her business can comfortably contribute each year up to the actuarial limit. Depending on the (1) client's age, (2) average of three highest years of income and (3) planned retirement age, that amount could be as much as \$164,768 for 2006. (The exact amount of a contribution can be determined only after the end of the client's fiscal year.) The Plan needs to be established by the end of the client's fiscal year but the bulk of the contribution need not be made until the year's tax return, including extensions, is due or by September 15th, whichever is earlier.

Online Proposal in Minutes

A calculator on our website www.ubs.com/smallbizpension will help you make the initial estimate. In succeeding years, the contribution amount is determined by the same three factors plus (4) the balance accumulated in the plan.

Prototype Plan Document

The *Small Business Pension Program* uses a prototype plan document approved by the IRS. Therefore, establishing a plan is easy, more like establishing a profit sharing or money purchase plan than like a traditional defined benefit plan.

Expert Sales and Service Support

Specialists with EMJAY Retirement Plan Services, Inc. will provide the expertise to set up the plan so that it meets IRS requirements and your client's needs. They will walk you and your client through the steps, collecting needed information from you and/or the client and answering you or your client's questions. Setting up the plan is not a long process but it must be done exactly right to comply with IRS regulations.

Contribution Required Each Year

The *Small Business Pension Program* is different in one important way from many other kinds of retirement plans: the client **MUST** contribute the amount determined by the actuary each year.

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Program Introduction for Financial Advisors

Changes in tax laws now make it possible for qualified clients to reduce their tax liability and use that money to fund for retirement. Clients may be able to contribute up to \$100,000 or more annually.

The *Small Business Pension Program*: A Small Business Defined Benefit Plan

The *Small Business Pension Program* is a defined benefit (DB) pension plan. Defined benefit plans have been available for many years.

Typically, defined benefit plans are designed for larger firms, making establishment by small companies complicated and time consuming. The *Small Business Pension Program* was engineered especially for firms with one to five employees. And because it uses an IRS pre-approved, prototype plan document, the *Small Business Pension Program* is easier to establish than most defined benefit plans. The *Small Business Pension Program* also allows a flexible range of investment options. The *Small Business Pension Program* is efficient to set-up and administer.

How a Defined Benefit Plan Works

A defined benefit (DB) plan is a qualified retirement plan. All contributions to the plan are tax deductible as a business expense. Plan earnings will accumulate on a tax-deferred basis. Distributions eventually taken from the plan will be taxable to the participant as ordinary income.

A defined benefit plan approaches contributions and accumulation differently than a defined contribution plan like a SEP or profit sharing plan. In figuring out how much can be contributed, a DB plan specifies a formula based on an employee's income to determine how much money will need to be accumulated to provide an income stream in retirement to replace all or part of the employee's income. The answer is different for a 55-year-old ten years from retirement than for a 25-year-old 40 years from retirement. The exact amount of money is determined using actuarial assumptions based on factors such as age and income.

The general rule of thumb: The older the client (and the shorter the time to retirement), the larger the contribution. Tax laws require an annual contribution. Any employees who meet the plan's eligibility requirements must also be covered.

How a DB Plan is Different

Other types of retirement plans, such as SEP and Profit Sharing Plans (the plans with the next highest contribution limits), are based on a set contribution formula – 25% of earnings up to a maximum of \$44,000 annually. Beyond minor "catch-up" additions, it doesn't matter how old the employees are or how close to retirement they are.

A defined benefit plan is subject to different limitations, and because age is a factor in calculating maximum contributions, a DB plan like the *Small Business Pension Program* can offer different results for the appropriate client. Typically, a high-income self-employed or small business owner who is over 45 years old can contribute substantially more to a DB plan than to any other type of plan.

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How The *Small Business Pension Program* Works

With the *Small Business Pension Program*, the employer decides how much they can comfortably afford to contribute to the plan. Alternatively, they decide how much yearly income they want when they retire. Each year, EMJAY Retirement Plan Services, Inc.'s actuary calculates the exact contribution limits and requirements, based on the following:

- Current age
 - Generally, the older the employee, the more money must be contributed each year on their behalf in order to reach the plan's retirement goal
- Earned Income
 - The average of three highest years of income
- Planned retirement age
- The balance accumulated in the plan

The *Small Business Pension Program* is Flexible

The employer can:

- Change the contribution amount by amending the benefit formula
- Terminate the plan, subject to IRS rules (generally not sooner than 5 years after the plan's establishment)
- Decide how money will be taken out at retirement, including rolling it over to an IRA to keep assets growing tax-deferred
- Choose among multiple investment options and move assets from one option to another without regard to current taxes

Investment Options

Employers have the flexibility to select from most investments available through UBS Financial Services Inc. Once invested, the employer will have the ability to reallocate investment dollars as needed. Generally, the same investments eligible to be purchased within a SEP, 401(k) or profit sharing plan at UBS Financial Services Inc. can be purchased within a defined benefit plan. As the plan's fiduciary, the employer has an obligation to invest the plan's assets to meet his/her fiduciary responsibilities.

A Sound Investment Strategy

Because your client's time frame to retirement is likely to be less than 15 years, investments that minimize volatility are recommended for a defined benefit plan. The closer to retirement, the more likely your client is to choose investments that minimize risk. Since the actuary assumes a 5.5% rate of return for plan assets, when investments return greater than 5.5%, the future contributions to the plan will decrease, while returns lower than 5.5% will cause future required contributions to increase. This is an issue that you should explain carefully to help your clients choose the best investment alternatives.

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Support for Financial Advisors

- A great reason to contact high-income earners. The *Small Business Pension Program* gives you a powerful, innovative concept to present to clients who want to make the maximum allowable contributions to their retirement plan each year. The potential exists for much higher contribution amounts than 401(k), profit sharing, SEP-IRA or SIMPLE plans.
- Turnkey administration. Consultants will help you prepare proposals and handle all paperwork related to the Plan's set up and ongoing administration including government tax reporting.
- No need for you to be a technical specialist. Estimate your client's opportunity using the automated proposal generator at www.ubs.com/smallbizpension. Using the client proposal, the *Small Business Pension Program* is simple to present.
- Complete, year-round phone sales support and customer service provided by a full service nationwide third party administrator.

EMJAY Retirement Plan Services, Inc.

EMJAY Retirement Plan Services, Inc. is the third party administrator of the *Small Business Pension Program*. The company offers a full range of 401(k) and defined benefit retirement solutions.

The *Small Business Pension Program* Benefits to Clients and Client Concerns

Benefits of the *Small Business Pension Program* for clients include:

- Tax deductible contributions
- Tax deferred growth on investments
- Larger contributions permitted versus other types of retirement plans
- Contributions favor older employees of the business

Concerns clients may have about the *Small Business Pension Program* include:

- Annual contributions are mandatory based on IRS guidelines
- Annual contributions determined by the plan's actuary can vary based on the plan's assumptions
- Employees who meet the plan's eligibility requirements must also be covered

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Comparing the *Small Business Pension Program* to Other Plans

The *Small Business Pension Program* vs. a SEP or Profit Sharing Plan

After the *Small Business Pension Program*, SEPs and Profit Sharing Plans have the second-highest contribution limits for retirement plans.

SEPs and Profit Sharing plans are defined contribution plans and therefore have an annual contribution limit of \$44,000. This is regardless of the age of the participant or the number of years he/she has until retirement.

The *Small Business Pension Program* is a defined benefit plan. Defined benefit plans take into consideration the age of the participant and the retirement age in determining the annual contribution. Since DB plans are not restricted to an annual contribution limit of \$44,000, for older participants, contributions can be significantly greater. The only limit on the annual contributions is the amount necessary to fund for the annual benefit at retirement which can be as high as \$175,000 per year, and this amount is determined by the actuary following IRS guidelines for defined benefit plans.

Where to Find Clients for the *Small Business Pension Program*

Start with Your Own Book of Business

- High balance SEPs and profit sharing plans.
 - A business owner who is over 45 may be ready to contribute substantially more than \$44,000 each year.
- Physicians, attorneys, CPAs and other professionals
 - Even if they don't qualify personally because they are part of a larger practice, they probably know people who do: get referrals.
- Small business owners
 - Again, all of them may not qualify for one reason or another, but they probably know other small business owners who do: get referrals.
- Self-employed consultants, writers, software developers, manufacturer's reps, photographers and more.
 - If you don't have their retirement plan, they probably have one at another financial firm.
- Retired executives who are consulting or serving on corporate boards. They get self-employment income.
- Independent contractors, such as real estate agents.
- And don't overlook spouses of highly paid executives and professionals. Many spouses have small businesses, are self-employed or work as independent contractors. Depending on their ages, they may be interested in saving a substantial amount of their earnings.
- See the CHECKLIST on page 10 for a tool to use to find out if an existing client is a good prospect for the *Small Business Pension Program*.

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Work Your Community

- Get five minutes to stand up and talk about the plan at meetings of the Kiwanis, Chamber of Commerce, Rotary or other clubs with local business people.
- Local yellow pages will list attorneys, architects, dentists and other professionals as well as all sorts of businesses that might qualify, such as dry cleaners, beauty salons, contractors, etc.
- The local Chamber of Commerce will usually have a list of members, most of which are small businesses.
- Take a walk down Main Street or in other commercial areas. Stop in to see the owners of stores.
- Visit smaller office buildings and get the names of the businesses from the directories. Then stop by or call them up.
- Get directories of attorneys and other professions. The local library often will have these.
- Check out www.Larkspurdata.com. You can buy a CD-ROM with the age, phone number and listing of profit plan and money purchase pension plan owners in your geographic area.

Pre-Approved Client Letters

The sections below, starting on the next page, contain pre-approved client letters that you may customize and send to your clients. You may re-type these letters or open the Microsoft Word documents available on the website. Customize the letters with your client's or prospect's name and address, your name and address, save the document and then send it.

Program Review Checklist

One of the best times to uncover prospects for the *Small Business Pension Program* is when you do a review with a client. Prior to the review, send the Checklist on the next page. The answers to the questions on the checklist will indicate whether or not the client is a potential prospect as well as capture his/her interest.

The Checklist can also be used with individuals who are not currently clients. Using it may get their attention and raise their interest in you.

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Do You Qualify for the *Small Business Pension Program*?

Changes in the law regarding retirement plans now make it possible for eligible taxpayers to make tax deductible contributions to a *Small Business Pension Program* of up to \$100,000 or more this year and every year. To see if you may be in a position to take advantage of this program, use this checklist.

You

- Are age 45 or over

And you have earned income of more than \$100,000 from one or more of these sources (as a sole proprietor, partnership or corporation):

- Own a business with five or fewer employees including yourself
- Own a seasonal business with five or fewer permanent employees
- Are self-employed
- Are an Independent Contractor
- Receive income from part-time or moonlighting self-employment
- Receive consulting fees
- Receive royalty or licensing income
- Receive fees for being an independent member of a board of directors
- Receive fees from lectures or exhibitions
- Receive any fees from sources other than your primary employment

Or Your Spouse

- Is age 45 or over

And your spouse has earned income of more than \$100,000 from one or more of these sources (as a sole proprietor, partnership or corporation):

- Owns a business with five or fewer employees including him/herself
- Owns a seasonal business with five or fewer permanent employees
- Is self-employed
- Is an Independent Contractor
- Receives income from part-time or moonlighting self-employment
- Receives consulting fees
- Receives royalty or licensing income
- Receives fees for being an independent member of a board of directors
- Receives fees from lectures or exhibitions
- Receives any fees from sources other than his/her primary employment

If you and/or your spouse checked Age 45 or over AND ANY ONE OF THE OTHER BOXES, you and/or your spouse may very well be in a position to take advantage of the tax law changes. You may be able to contribute to your own retirement and deduct from taxes up to \$100,000 or more this year and every year. We need to discuss your situation to determine if you are eligible for the *Small Business Pension Program*SM.

Please call me at XXX-XXX-XXXX to set up a time to get together.

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Small Business Pension Program Letter 1

(Clients or prospects without a retirement plan)

Month XX, Year

Mr. James Client
1000 Main Street
Anywhere, USA

Dear (Mr. Client):

There are several different types of retirement plans that self-employed individuals and small business owners like you can establish. All the plans offer:

- Contributions that are tax deductible to the business
- Tax deferred growth on assets invested in the plan
- A way to accumulate assets for retirement for you and your employees
- A wide variety of investment options
- Distribution alternatives at retirement, including the ability to roll over to an IRA

The *Small Business Pension Program*SM is a new retirement program available through UBS Financial Services Inc. that may be appropriate for you. This program allows for contributions of up to \$100,000 or more each year, which is greater than other types of retirement plans, such as SEPs and profit sharing plans.

To take advantage of this program, you should be age 45 or older, have self-employment income or own a business with five or fewer employees, counting yourself and are interested in making an annual contribution of more than the \$44,000 permitted in other types of plans.

This may be an opportunity to reduce your tax liability in 2006 and future years.

(Use during fourth quarter of year only: Since the plan must be in place by December 31 in order to take a 2006 tax deduction, we should meet soon.)

Let's talk about it and see if the *Small Business Pension Program* is something worth considering for your business or if there are other retirement plans you may be interested in. I'll call you next week.

Sincerely,

Financial Advisor

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Small Business Pension Program Letter 2

(Clients or prospects with an existing defined contribution plan)

Month XX, Year

Mr. James Client
1000 Main Street
Anywhere, USA

Dear (Mr. Client):

Although there are several different types of retirement plans that self-employed individuals and small business owners like you can establish, not all of them allow for the same level of annual contributions.

The *Small Business Pension Program*SM is a new retirement program available through UBS Financial Services Inc. that may be appropriate for you to consider as a replacement for your existing retirement plan. This program allows for contributions of up to \$100,000 or more each year, which is greater than other types of retirement plans, such as SEP and profit sharing plans.

To take advantage of this program, you should be age 45 or older, have self-employment income or own a business with five or fewer employees, counting yourself and are interested in making an annual contribution of more than the \$44,000 permitted in other types of plans.

This may be an opportunity to reduce your tax liability further in 2006 and future years.

(Use during fourth quarter of year only: Since the plan must be in place by December 31 in order to take a 2006 tax deduction, we should meet soon.)

Let's talk about it and see if the *Small Business Pension Program* is something worth considering for your business. I'll call you next week.

Sincerely,

Financial Advisor

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Telephone Talking Points

Telephone Talking Points for Current Clients

- Identify yourself.
- I'm calling to let you know about something I think you'll find really interesting. It's a new retirement program we're offering called the *Small Business Pension Program*.
- It's an IRS-approved retirement plan program that might let you make a tax-deductible contribution of as much as \$100,000 or more each year.
- The Program is appropriate for self-employed individuals and small business owners with five or less employees.
- If you'd like, I can run a proposal for you to show you how much you'd be able to contribute.
- I have your age as _____. Is that correct? (Fill in answer) And if you could give me an estimate of your earned income for this year, that's all I need to come up with an estimated contribution.
- Let me send you this proposal, then we can talk about it.

Telephone Talking Points for Prospects

- Hi, this is (your name) with UBS Financial Services Inc. Can I speak with the owner?
- This will take less than a minute of your time. I just want to find out if you've heard about an IRS-approved retirement plan program that might let you make a tax-deductible contribution of as much as \$100,000 or more each year.
- This *Small Business Pension Program* is appropriate for self-employed individuals and small business owners with five or less employees.
- If you'd like, I can run a proposal I can send to you to show you how much you'd be able to contribute.
- All I would need is your age and an estimate on your earned income for this year; that's all I need to come up with an estimated contribution.
- Let me send you this proposal and then we can talk about it.

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How to Implement a *Small Business Pension Program*

Estimate the Client's Annual Contribution and Retirement Benefit

It takes less than three minutes to estimate both the annual contribution and monthly retirement benefit for a client. Just go to www.ubs.com/smallbizpension and select "Create Proposal."

Create a Proposal for the Client

While you are at www.ubs.com/smallbizpension, you can generate a proposal for the client that illustrates his/her maximum contribution amount for 2006.

Answer Client Questions

Clients or their CPAs/tax advisors may have questions about the plan. We suggest you set up a conference call with a DB Specialist at EMJAY Retirement Plan Services, Inc. by calling toll-free 866-269-2573. The specialist will be able to answer questions either the client or the tax advisor have.

Complete the Set-up Questionnaire

Available from the website, the Set-up Questionnaire needs to be completed by the client. He/she may need information from his/her CPA or tax advisor. A DB Specialist at EMJAY Retirement Plan Services, Inc. will review the completed questionnaire. The specialist may need to contact you, the client or the client's CPA/tax advisor for additional information.

Mail Questionnaire, Enclose Check

The client encloses a check for the Plan Set-up Fee and mails it with the Set-up Questionnaire and a copy of the proposal (if available) to:

EMJAY Retirement Plan Services, Inc.
5001 North Lydell Avenue
Milwaukee, WI 53217

The amount of the Plan Set-up Fee is \$1,200 plus \$50 per employer and each participant.

The annual administration fee will be billed directly to the employer. The employer will pay a full annual administration fee each calendar year, which will be invoiced for each quarter.

Receive Welcome Kit and Complete Paperwork

A Welcome Kit will be sent to the client once the Questionnaire and check are received. The client needs to complete the paperwork in the Kit. The paperwork includes the Plan Adoption Agreement and other legal documents. Once these are signed and returned, the Plan will be opened.

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Open Account

Once the plan is opened and the client has received a unique trust identification number from the IRS, you need to open an account at UBS Financial Services Inc. in the name of the plan. To open the account, your client will need to complete an Account Application and Agreement for ERISA Plans (EJ) Form (CL-ERISA-KIT).

Establish the account on CAI:

“Retirement Plan” is “Defined Benefit”

“Plan Design” is “Custom Design”

“Plan Structure” is “Pooled”

Title the account using the following format:

(name of trustee) Trustee

(name of company) Defined Benefit Plan

(address of trustee)

After establishing the account, send an e-mail to raymond.allgeier@ubs.com with the account number so Retirement Consulting Services can code the account as a *Small Business Pension Program* account.

Choose and Fund Investments

You and your client need to develop an investment strategy for the account, choose specific investments and fund those investments. The full amount of the contribution does not have to be made until the tax return for the year, including any extensions, is due.

Additional Information for FAs

Suggestions for Handling Client Objections

I can't afford this without reducing my standard of living.

You may be able to make much larger contributions than you think. Depending on your tax bracket, 40% or more of any contribution could be money you're already paying out in taxes. Let's say you are eligible to make a \$100,000 contribution to a *Small Business Pension Program*:

- You are probably already planning to make the maximum contribution to your current retirement plan, that's generally \$44,000.
- Of the remaining \$56,000, if 40% would be paid in taxes this year, that is another \$22,400.
- That leaves you with \$33,600 to finance. If you can move that amount from a taxable account, there would be no negative impact on your standard of living. You have exactly as much money available to pay your bills as you had before. And, you are not paying current taxes on the income from that \$33,600.

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I already have a retirement plan

Unless it is a defined benefit plan like the *Small Business Pension Program*, it doesn't allow contributions of more than \$44,000 per participant each year. If you want to make larger contributions and take larger tax deductions, you need the *Small Business Pension Program*.

I don't want to make large contributions for my employees

Contributions required for employees to a defined benefit plan are generally lower than required contributions for employees to other types of retirement plans. That's because contributions for employees are based on the same criteria as contributions for yourself: mainly age and compensation. If your employees are younger and not as highly compensated as yourself, the contributions made on their behalf will be relatively low. It depends on your specific situation.

It seems awfully complicated

EMJAY Retirement Plan Services, Inc., the firm that provides administrative services for the plan, takes care of all the paperwork and red tape. They keep the plan in compliance with government regulations, and they prepare all the forms. All you or your tax advisor need to do is provide simple information each year.

I don't understand all of this; I need to talk to my attorney/tax advisor

That's a good idea. Let me send him a copy of the proposal and then let's have a phone conversation with the *Small Business Pension Program* Specialists so that he can ask all his questions.

I don't want to be limited to specific investments I might not like

You are able to choose how you want to invest the plan assets. All investments legally permitted in a retirement plan and available through UBS Financial Services Inc. can be held in the *Small Business Pension Program*.

Answers to Questions from Financial Advisors

Management Issues

Am I limited to certain specific investments?

Generally no, but UBS Financial Services Inc. does not permit certain investments in retirement plans, such as certain options and futures. In addition, like other types of retirement plans, the employer is a fiduciary to the plan and therefore is obligated to invest the funds to meet these responsibilities. This basically means that the employer is required to invest plan assets prudently, for the benefit of all plan participants, and must diversify the investment of the plan's assets.

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Where is the account held?

The account is opened at your UBS Financial Services Inc. branch.

How is the account titled?

Sample client, Trustee
Sample Company Defined Benefit Plan
Trustee's address

Can I purchase life insurance in the plan?

Yes, within limits. You are not required to use any part of the plan's assets to purchase life insurance products. If your client does choose to invest in life insurance in the plan, the portion of the contribution attributed to the insurance is not generally tax deductible.

Am I involved in the paperwork for the plan?

You are involved in the paperwork for establishing the investment account at the branch. To set up the account, you'll need to have the client complete an Account Application and Agreement for ERISA Plans (EJ) Form (CL-ERISA-KIT). The plan set up and administration with EMJAY Retirement Plan Services, Inc., the third party administrator, can be handled directly with the client and/or his or her tax advisor.

What do I have to do?

Your responsibility is generally limited to:

- Identifying the prospects
- Presenting the proposal
- Establishing the investment account
- Providing the employer with asset allocation assistance and implementing the asset allocation strategy

EMJAY Retirement Plan Services, Inc. will handle the annual account administration, including preparation of an annual report to the IRS, of the plan's total contributions and assets.

The client already has a defined benefit plan but would like to use the *Small Business Pension Program*. What should I do?

Call one of the EMJAY DB Specialists at (866) 269-2573 for assistance in taking over an existing defined benefit plan.

Retirement Issues

What happens if the client closes the business and stops working before the plan's retirement date?

The plan can be terminated subject to IRS rules and either the plan can purchase an annuity for each participant, or the lump sum value of the benefits can be distributed to each participant for rollover to an IRA. Early planning is always helpful, so let EMJAY Retirement Plan Services, Inc. know the client's plans when you know them.

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Does the client have to retire on the plan's specified retirement date (year)?

No. The plan's retirement date is one of the assumptions used to establish the amount of money to be funded each year. The client can amend the plan to change the retirement date or simply keep working and take the benefits later. Let EMJAY Retirement Plan Services, Inc. know as soon as your client's plans change and they can make the appropriate amendments.

When can the client retire?

The client can stop the plan at any age and either purchase an annuity for the benefits or roll the present value of the benefits over to an IRA to begin receiving distributions. Routinely, however, the plan should continue for a minimum of five years, and the earliest retirement date is age 55.

How much money can the client take out of the plan each year at retirement?

The client can either take the stated retirement benefit (example: \$100,000 per year) or he or she can roll the total amount of the accrued benefit to an IRA. This allows flexibility in distribution options.

Annual Contributions

Is the contribution mandatory?

Yes. The contribution determined by the actuary is required each year to fund the benefit promised by the plan at retirement. The IRS imposes penalties for failure to contribute the required amount. However, the plan benefit formula can be amended for future years and thus lower the need for funding that year or at all in the future.

Is there a percentage (%) limit on the client's contribution like other plans?

No. The contribution is determined as a function of age, compensation, interest rate assumption and maximum benefit allowed. An actuary calculates the required funding and that amount is tax deductible.

When is the annual contribution due?

The funding deadline for pension plan contributions is no later than 8½ months after the close of the plan year. In order to be tax deductible, the client must make the contribution on the earlier of the date he or she files an annual tax return (with extensions) or 8½ months after the close of the plan year.

Can the client's contribution amount be reduced after the plan is set up?

Yes, this can happen in several ways within limitations. The client can amend the plan formula down for future years (but still may be required to make the contribution for the current year, depending on when the amendment is made). Also, if compensation decreases, the required contribution may decrease. If the investment performance of the plan is greater than the assumed interest rate, the required contributions will also decrease.

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What is the maximum amount the client can contribute?

The maximum benefit in a defined benefit plan is a pension of 100% of his or her compensation payable for life, up to a certain dollar maximum (\$175,000 for 2006). The contribution is whatever an actuary determines is necessary to fund that benefit.

Investments

What happens if investments earn more than the actuarial assumed interest rate?

The plan assets and the annual contribution work together to fund the plan. If the investments grow more than expected, the client will put less money into the plan in future years.

Are investments limited in the amount of return that can be earned?

No. However, the contribution amount will be adjusted to reflect the actual investment experience of the plan. This means if a plan earns above the assumed rate of return, contributions will decrease. If it earns below the assumed interest rate, required contributions will increase.

Changing Plans

In the past, the client has had a retirement plan for his/her business. Can the client now terminate a SEP, profit sharing or money purchase plan and set up a *Small Business Pension Program* plan?

Yes. However, if the client already made a contribution to the existing plan, he/she may want to postpone establishing a *Small Business Pension Program* until the following fiscal year. Different rules apply for handing the contribution to the prior plan depending on the type of plan.

Can the client terminate the *Small Business Pension Program* plan? How?

Yes. The client will be required to submit final filings to the IRS. An actuary calculates the benefit under the plan. Depending on the amount in the plan, there could be excess or a shortfall to fund the benefits. This could be significant because shortfalls will need to be funded prior to plan terminations, and excesses may be subject to a penalty tax.

Eligibility

A client works for two companies and already participates in a 401(k) plan sponsored by one company where he's employed. Can the client participate in both the other employer plan and a *Small Business Pension Program*?

Yes, if the two plans are with companies that are not part of a controlled group (basically, if they are not both controlled by the same five or fewer people).

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The client owns more than one business. Does the client have to cover employees in both businesses?

Generally, yes if the client owns at least 80% of both businesses.

The client already participates in an employer's 401(k) or a 403(b) plan. But the client has earned income from a source not covered in that plan, such as royalties, director fees, lecture fees, consulting fees. Can he or she open a *Small Business Pension Program* plan to cover that self-employment income?

Yes.

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