

EMPLOYEE 401(k) PLAN

SURVEY KIT

SPECIAL ANNOUNCEMENT

At the present time, our firm is considering adopting a 401(k) Plan for the benefit of employees. For individuals not familiar with *401(k) Plans*, it is a program which allows you the ability to "take charge" of your retirement security. Newspaper articles, magazine features, and television programs have all discussed why the 401(k) Plan is so valuable to the individual. You are now being afforded the opportunity to use a 401(k) Plan for your retirement security. If used properly, it will be an important part of your financial future.

While there are many benefits from your participation under a 401(k) Plan, there is one aspect we wish to focus on -- the pre-tax nature of *401(k) Contributions*. Your 401(k) Contributions are a pre-tax deferral of pay, for deposit to your benefit account under the plan. The results are (1) your income tax bill will be lowered, (2) investment income generated by these monies is not subject to current taxation, and (3) you will be receiving a government subsidy for your retirement savings. Since the first two points are frequently discussed, we only focus on the third point in the following.

Suppose that you make \$30,000 per year and you wish to defer \$2,000 over the year as a 401(k) Contribution. Looking only at federal income tax and assuming that your income tax is determined under the 28% tax rate, you have received a \$560 "subsidy" for your retirement savings by making your \$2,000 contribution.

How? Well, if you had not made the contribution you would have paid \$560 in federal income taxes on the \$2,000 of income this contribution represents. Since you instead made the contribution, the government *lets you keep* that \$560 for your retirement savings. In summary, when you contribute monies to a 401(k) Plan you are actually able to keep and invest monies that would not have been available to you.

Since you may have other questions about 401(k) Plans, we have attached a FAQ for 401(k) Plans. If you still have questions after reading that FAQ, please write that question on your attached Survey Response Form. We will then be able to get you the answer you need.

We are conducting this survey to determine what, if any, interest employees have toward having a 401(k) Plan exists. As a survey, your response on your Survey Response Form is NOT an actual election. It shall only be used to determine if you have interest toward having this new benefit program. You will not be obligated to make any contribution to the Plan based on this survey.

It is asked that all employees complete a Survey Response Form and return to personnel within the next 10 days. Your cooperation with this request is greatly appreciated.

FAQ FOR 401(k) PLANS

The following answers questions that are frequently asked by people considering participation under a 401(k) Plan. If you have a question that is not answered in the following, you may submit that question with your Survey Response.

What is a 401(k) Plan?

A 401(k) Plan offers you, as an eligible employee, the choice of receiving part of your compensation in cash, or deferring receipt of this compensation as a contribution to the Plan's trust fund. These funds will be held in an investment account that is held exclusively for your benefit. No current federal income tax is due on the amounts of pay deferred. In most states, state income tax is also based on your reduced compensation. At year end, your Form W-2 will reflect the reduced compensation for federal (and state, if applicable) income tax purposes. Social Security taxes are based on your unreduced compensation. Your participation in a 401(k) Plan will not adversely effect your social security retirement benefit.

Am I "giving away" or "losing" my money if I contribute money to the Plan?

No! Monies you contribute to the Plan are non-forfeitable (100% vested) for any reason. In fact, all monies contributed to the Plan can only be used for the benefit of the participants, which would include you. **This is the law.**

Why should I contribute to the Plan?

In general, a person who participates in a 401(k) Plan benefits by reducing current income taxes and the Plan can generate considerable assets for you. Younger employees are offered an excellent opportunity to build wealth for their future. (Projections for Social Security are not hopeful; you owe it to yourself to take charge of the situation.) Older employees do not have as much time, they should address concerns toward retirement with a relative measure of urgency.

Why not just do an IRA?

First, the IRA is a tax deduction created with after tax dollars. To get your \$2,000 deduction you probably needed to earn (gross pay) around \$2,600 to get the \$2,000 for deposit. Under 401(k) it only cost you \$1,400 from your take home pay to provide the \$2,000 deposit. This reflects that monies you would have paid in taxes are "turned into contribution" under the Plan. **Second**, if you are like most people you scrambled at the last minute to find that \$2,000. Under a 401(k) Plan the deposit was painlessly spread across the entire year. **Third**, most "investments of quality" have "deposit minimums" (e.g. \$1,000). Your 401(k) contributions will be invested in quality investments without deposit minimums. There are other advantages to a 401(k) over an IRA, such as the potential to share in a Matching Contribution, but the preceding does demonstrates why a 401(k) Plan is probably a better choice for you.

My household budget has no money for a 401(k) Contribution -- What can I do?

The benefits of the program can only be obtained by making a contribution. Look at your household expenditures.

Are there any expenditures that could have a small reduction applied, which when added together, allow you to make a contribution to the 401(k) Plan?

In general, a dollar you contribute to the 401(k) Plan costs your household budget between 70 to 80 cents. This "bargain" is related to the pre-tax nature of 401(k) contribution. Let's say you make \$300 per week. A 3% salary deferral contribution should only cost you about \$6.30 (less than the cost of most fast food meals) from that paycheck. At year end you will have an investment account arising from \$468 of contribution.

The "bottom line" is that your participation is important for your future. While basic necessities and "today's bills" are more important, a failure to work a 401(k) contribution into your home budget may be a serious mistake. After all, it is your future you are addressing.

Is there a special Tax Credit for Deferrals for Lower and Middle Income Participants?

Yes, this special credit makes your contribution even more advantageous to you if you qualify. Rules are based upon Adjusted Gross Income and Filer Status, with the special tax credit ranging between 10% to 50% of the amount you contribute to the Plan. Details of this special "401(k) Saver's Tax Credit" are found on IRS Form 8880.

What if I want to stop making contributions to the Plan?

You can stop contributing to your Plan whenever you wish. Usually a 7 to 10 day advance notice is requested, but is often not enforced.

Can I take my money out of the Plan before retirement?

Monies held in a 401(k) Plan can only be withdrawn from a 401(k) Plan before retirement if you become disabled, terminate employment, reach age 59 ½, or if you die. Some plans also include provisions which allow participants to borrow against their account, or to withdrawal monies if you have a special defined financial hardship. Under the loan you are repaying the loan back to your account. Hardship distributions are a taxable distribution and are not paid back. As a "qualified retirement plan" the related rules do "discourage" pre-retirement distributions. When our government designed these rules, they did so in a manner that preserves the goal of creating a fund for retirement, which would not be possible if distributions were allowed for whenever and whatever a person wants. Yes, it is your money, but to get the very valuable benefits provided by the Plan, the rules defined by our government must be followed. If you contribute to the Plan, and follow the rules, you should create an important fund for your retirement security. **That is the purpose of this Plan -- Your retirement security!**

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SURVEY RESPONSE FORM

All employees must enter his or her name on the line provided, and sign and date under provided *Employee Signature*. If you have any interest in having a 401(k) Plan available to you, you also need to complete *Estimated Salary Deferral Election*. If you enter an *Estimated Salary Deferral Election*, you may also define a *Special Question on 401(k) Plans*. **Please return your completed Form to personnel without delay.**

EMPLOYEE NAME

Employees' Full Name: (*Please Print*)

Last	First	Middle Initial
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ESTIMATED SALARY DEFERRAL ELECTION

If a 401(k) Plan was available to me I would estimate that I would elect to have _____% of pay withheld from my gross paycheck for deposit to our Plan's Trust Fund. I understand that this election is only for use in determining my interest in our having a 401(k) Plan. This is not an actual election and may not be used for that purpose under any circumstance.

SPECIAL QUESTION ON 401(k) PLANS

Prior to filing an actual election under a Plan, I would need the following question answered: _____

EMPLOYEE SIGNATURE

Employee Signature

Date

For Personnel Office Use Only

Social Security Number: _____ Date of Birth: _____ Date of Hire: _____