

November 1, 2004

Dear Client:

The year 2004 is rapidly coming to an end. *Benefit Consultants Group* would like to thank you for the opportunity to service your retirement plan and bring to your attention various government regulation issues that may be relevant to your plan. Some of the areas that will be addressed include: year end compliance work, Safe Harbor notices, updated 2005 IRS limits, year-end profit sharing contributions and 70½ distributions.

### **Year End Packet**

Shortly after we process your last employee deferrals for 2004, if applicable, we will be sending you a *BCG Year End Packet*. Upon receipt, please review all data and follow the enclosed instructions. The accuracy of the compliance work depends on the accuracy of the data received (from client). **RETURN OF THE MATERIAL IN THE BCG YEAR END PACKET WILL BE TIME SENSITIVE!**

- *BCG* will be sending "Follow-up letter(s)" if there is no response to our *BCG Year End Packet*. If we still get no response, we will be forced to send out the compliance work based on the available information. If changes need to be made once this has taken place, we will be forced to CHARGE you for any changes, updates or amendments.
- Any 401(k) refunds must be made by March 15<sup>th</sup>, 2005 or the Employer/Plan Sponsor will have to pay an IRS mandated 10% EXCISE TAX on any refunds. We cannot guarantee that refunds will be done before March 15<sup>th</sup> on any material that has not been returned to us on or by **February 11, 2005**.
- If your data is still not returned by **May 1, 2005 (or 120 days after plan year ends)**, we will not be able to complete your annual report (Form 5500 & attachments) in time for filing; therefore a **\$100.00** extension fee will be charged.

### **Safe Harbor Notices**

If you have ***elected*** or ***will elect*** to maintain a Safe Harbor status for the upcoming plan year, you must circulate your Safe Harbor notice to your employees **no later than December 1, 2004**.

### **Updated IRS limits on Benefits and Compensation 2005**

The limits for 2005 are as follows:

- 401(k)/403(b) Plans Maximum elective deferral amount for **2005** is \$14,000.00
- For participants over 50 years of age, the catch-up contribution limit is \$4,000.00
- 457 maximum contribution limit for 2004 is \$14,000 and is independent of the 401(k)/403(b) limit
- Individual allocation limit is now the lesser of 100% of compensation or \$42,000
- The maximum employer deduction in 401(k) PS Plans is 25% of covered compensation. Elective Deferrals in 401(k) plans **are not** counted as employer contributions
- Compensation limit is \$210,000.00

## **Year-End Employer Profit Sharing Contributions**

If you intend to submit a year-end profit sharing contribution, please let us know on the annual questionnaire (included in the *BCG Year End Packet*) that will be sent to you in early January 2005 (or shortly after plan year ends for Off-Calendar plans).

## **Age 70½ Minimum Distributions**

The law provides that an employee or business owner who participates in a company-sponsored retirement plan and who owns 5% or more of the company (including interests owned by family members and other related parties), must begin distributions from the plan no later than April 1 following the calendar year during which he or she attains age 70½. This rule applies whether or not the "5% owner" is still employed by the company at that time. The amount required to be distributed each year depends on the participant's account balance or accrued benefit under the plan, and whether or not the employee's spouse is designated as a beneficiary of his or her plan benefit (if anyone). Employees who are not 5% owners do not have to begin taking plan distributions until they actually retire.

A copy of a Plan Distribution Request Form (see *Helpful Hints* section) and Instructions should be distributed to all participants who are described above. These participants should review their situation with their tax advisor. The Plan Distribution Request should be returned as directed by the instructions. The reason for the distribution will be "70½." **Failure to make a required distribution will result in the imposition of a 50% excise on the plan participant and may disqualify the plan.** The Plan Distribution Request should be returned to us **no later than December 1, 2004 (February 1, 2005, for participants who turned 70½ in 2004 and wish to defer their first distribution no later than April 1, 2005,** to assure that the required distribution is made timely.

If your plan participants described in this letter have already submitted a request for a minimum distribution for the year 2004, please disregard this section.

Representatives of *Benefit Consultants Group* are also available to assist participants in formulating a distribution Plan that satisfies the minimum distribution rules and reflects the participant's financial and estate planning goals. **An additional charge will be imposed for this service. Please contact Stephen E. Sokolic (ext 7215) or J. Reed Cline (ext 7205) for more details.**

## **Helpful Hints!**

Visit our updated website [www.bcgbenefits.com](http://www.bcgbenefits.com) for "New and Exciting" changes. For example, we have now included a **FORMS** section which contains the following forms:

- Change of Address Form
- Employee Enrollment Form
- Loan Application
- Plan Distribution Request Form

And many more **FORMS** to make access easier for the participants and you, our valued clients.

If you have any questions concerning the content addressed in this letter, please contact your Retirement Plan Specialist at 800-524-4015 Option 5. Thank you and we look forward to providing you with excellent service!

Sincerely,

Retirement Plan Specialist Team