

GROWING INTEREST IN A NONQUALIFIED EXECUTIVE ROTH 401(K) OPTION

(aka The Insured Security Option Plan - ISOP[®])

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When the Roth 401(k) was introduced in January 2006, many wondered how quickly plan sponsors would offer the savings option to their employees, or if they would offer it at all. Just a little more than a year after its implementation, the Roth 401(k) is now a viable, permanent fixture in the retirement planning landscape. Many employers have adopted the Roth 401(k) to work in concert with their 401(k) plan.

About the Roth 401(k)

The Roth 401(k) option provides participants the flexibility of using after-tax income to save for retirement, which allows them to make non-taxable withdrawals once they've stopped working. In 2007, individuals can contribute up to \$15,500 to their 401(k) plan. Participants who elect to add the Roth 401(k) option to their 401(k) plan can contribute up to a total of \$15,500 between their pre-tax 401(k) and their after-tax Roth 401(k). At age 50, the contribution limit is increased to \$20,500. The hitch is that those limits apply to contributions to both types of 401(k) plans, so you can't save \$15,500 in a regular 401(k) and another \$15,500 in a Roth 401(k). There are no new opportunities to increase the annual contribution amount, but there is an opportunity to save because of a different kind of tax treatment. *In a Roth 401(k) your money grows tax-deferred and is distributed as non-taxable income at retirement.*

Participants who are offered this new option face a difficult choice, either contribute to a Roth 401(k) and suffer a cut in take-home pay (since contributions are made with after-tax dollars) or stick with a traditional 401(k) and hope that during retirement their tax rate will be lower than it is now. Alternatively, they could hedge their bet by splitting their contribution between both types of accounts. Making a sound decision hinges on their estimation of the taxes they think they will pay in retirement years. Chart I shows the history of U.S. tax rates. Will taxes go up in the future?

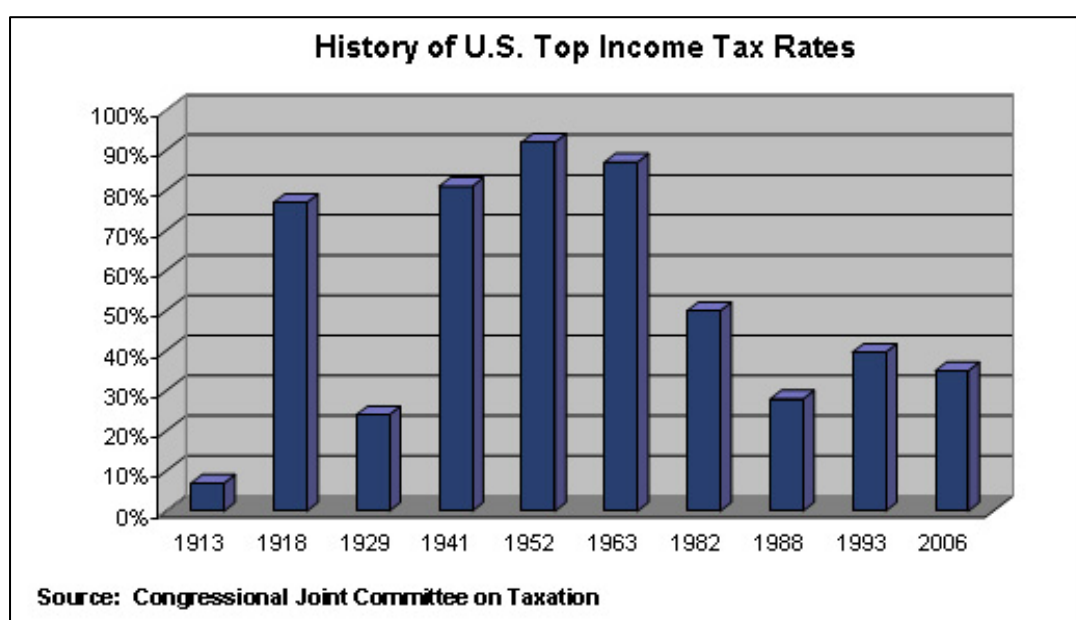
Nonqualified Deferred Compensation

For the highly compensated in an organization, the Roth 401(k) provides little value due to the contribution limits.

For this reason, most employers have implemented a nonqualified, tax-deferred plan for those senior executives who have capped out their contributions in the company's 401(k) plan. For the most part, participants in these nonqualified plans have no limitations placed on their pre-tax deferrals. However, they face two major concerns:

1. Their account balances (money deferred and earnings) are subject to the claims of the company's general creditors. With the new legislation under 409A, plans are less flexible.
2. They face the same future income tax rate increases as illustrated in Chart I. Because of the larger amounts deferred, they most likely will be in the highest income tax bracket at the time of distribution.

Chart I



Three Phases of Retirement Income Planning

In planning for retirement one needs to focus on the *three phases of retirement income* planning:

1. Contribution Phase
2. Accumulation Phase
3. Distribution Phase

Because of the contribution limits on both the 401(k) and Roth 401(k), many executives are offered tax-deferred compensation in their company's nonqualified plan. Because of the concerns mentioned above, many are also looking to diversify their retirement accumulation into a number of different sources.

First, it makes sense to put the maximum contribution into the 401(k) plan and then consider splitting the nonqualified deferred compensation plan into two buckets with the first bucket being the tax-deferred nonqualified plan (subject to the company's creditors) and the second being a nonqualified executive Roth 401(k), aka the ISOP[®] plan.

The ISOP[®] (similar to a nonqualified executive Roth 401(k)) differs from a traditional nonqualified deferred compensation (NQDC) plan because contributions are made using after-tax dollars. This means that distributions from the ISOP[®] are non-taxable, just as they are from like the Roth 401(k). By contrast, with the traditional NQDC, participants pay no up-front tax, but pay when withdrawing the money at retirement. The one major advantage the ISOP[®] has during the accumulation phase is that it accumulates earnings (tax-deferred) at the pre-tax amount. This is accomplished by an Alternative Loan Rider (ALR) in the ISOP[®] funding vehicle, which is an efficiently priced Variable Universal Life (VUL) Insurance Policy (Chart II).

Chart II

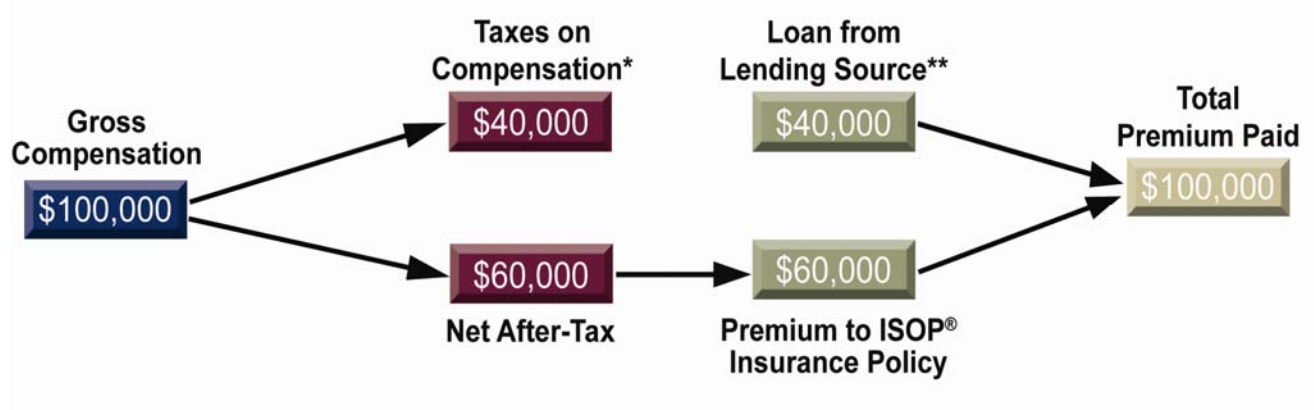
	Roth 401(k)	ISOP[®]
Pre-Tax Contribution	\$100,000	\$100,000
Taxes at 40%	(\$40,000)	(\$40,000)
Net Amount	\$60,000	\$60,000
ALR	(0)	\$40,000
Net Amount Invested	\$60,000	\$100,000

The ISOP[®] Plan: How It Works

For its investment engine, the ISOP[®] uses an institutionally priced, efficiently designed Variable Universal Life (VUL) Insurance Policy. The VUL has low sales loads, low insurance costs, and no surrender charges. The policy has 100% cash surrender value in Year 1. The VUL also offers access to 50-plus investment alternatives called "sub accounts" from fund managers such as Fidelity, Franklin Templeton, Vanguard and others.

During the contribution phase, after-tax contributions are made to the ISOP[®]. The annual contributions are tax-deductible to the company and trigger a tax liability for the participant each year. When an after-tax contribution of \$60,000 is deposited into the policy, the insurance company rider adds \$40,000 to the premium payment, so the total now equals the pre-tax contribution. Thus, the total premium payment equals \$100,000 and the entire amount is allocated among the sub accounts. (Chart III).

Chart III



*Assumed 40% tax rate.

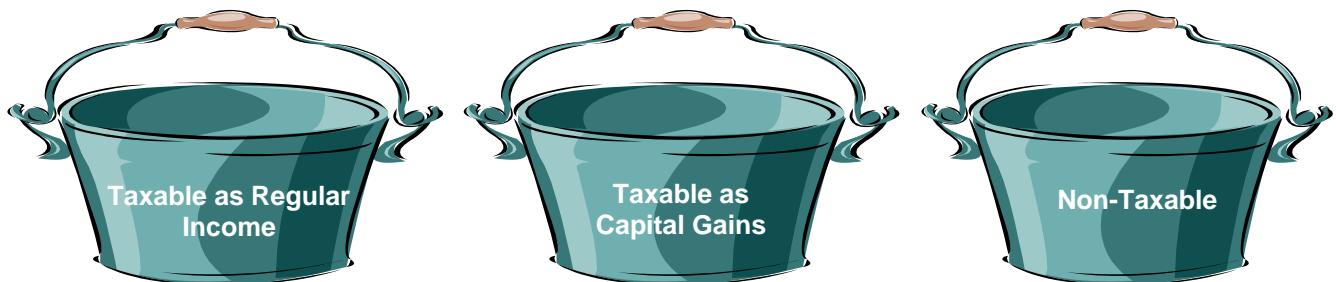
**Loan is optional and non-recourse.

Upon retirement, the ISOP® will generate a tax-advantaged income stream for the plan participant. Unlike the company's nonqualified deferred compensation plan, the participant's money can be fully protected by ERISA, and no pre-elections need to be made. The ISOP® is not subject to 409A. In fact, if the participant leaves the company, the ISOP® is portable.

Summary

With the uncertainty of future tax rates, and the uneasiness associated with being a general creditor in a company's nonqualified plan, a participant should consider diversifying their retirement accumulation into various buckets (Chart IV). True diversification would mean having varying distribution sources with varying tax treatments. An increase in the top tax rate from 35% to 50% would reduce the distribution assumptions by roughly 25% per year in the taxable account. Having a portion of the investment in a non-taxable bucket is a good design to provide a hedge against higher tax rates in the future. And remember, the ISOP® is fully-protected by ERISA.

Chart IV



From the employer's standpoint, the ISOP[®] is tax-deductible and creates no liability on the company's balance sheet. The ISOP[®] is also simple to administer and can be designed to work in concert with the NQDC Plan or as a stand-alone plan. When thinking of planning for your retirement, focus on how your income will be distributed and consider diversifying into different income buckets.

Investors should consider the investment objectives, risks and charges and expenses of the contract and underlying investment options, risks carefully before investing. The prospectus contains this and other information about the investment company and must precede or accompany this material.
Please be sure to read it carefully.