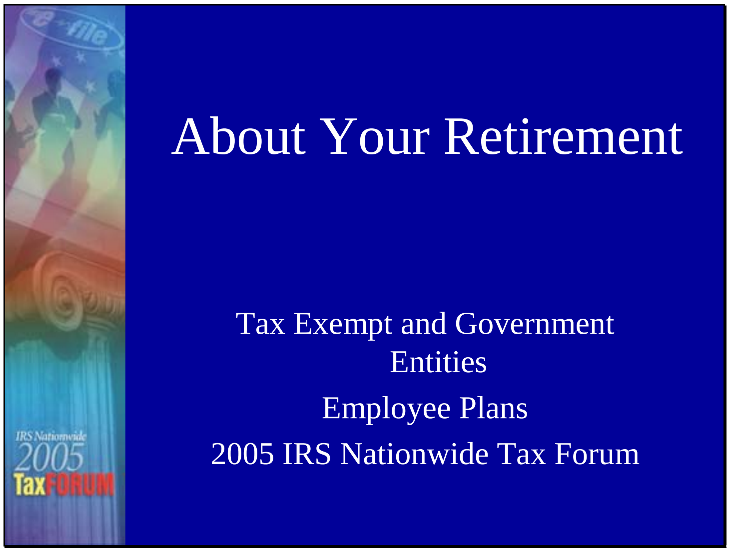
Slide 1



Good morning/afternoon.

Introduce yourself and provide your qualifications for speaking.

How many of you have had a client come to you with a retirement plan that was so not right for their particular situation? How many of you have had a client come to you requesting advice on the type of retirement plan to adopt? Did you know how to respond?

Today's presentation will provide you with real life examples to help you and your clients choose a retirement plan. Retirement plans are not one size fits all. Each business is unique. The goals of the employer for establishing a retirement plan are unique to each individual employer. A retirement plan for a business with one employee may not work for a business with 10,000 employees. The retirement goals for a business owner who is 20 may be completely different from the goals of a business owner who is 60. The retirement goals for a business with high turnover could be very different from the goals of a business with a very stable workforce. The retirement goals for a professional football team are different from the retirement goals of a fast food restaurant.

We are going to compare and contrast the plan types that may or may not work for employers with differing circumstances. Then we will provide you with some nuts and bolts examples of the maximum contribution that can be made under the different types of plans for a one-participant employer.

Finally, we will provide you with some additional resources to get answers to your specific questions.

At the end of this presentation, you will be better able to assist your clients in selecting the best retirement plan for their individual circumstances.

This presentation, along with the notes will be posted to our web site, www.irs.gov/ep in September after the final tax forum in Chicago. So if you miss anything during my discussion, please visit our web site to view the presentation.

Slide 2

These are just a few of the items that you and your clients should consider when deciding which type of retirement plan to adopt.

Is the employer a sole proprietorship? A partnership? A corporation? Is the employer located in a geographic area where plan administration services are readily available? Are the company earnings predictable or do they have wide fluctuations from year to year?

How many employees are there? Will this be a one-participant plan? Just the owner/employee and spouse? Or are there ten, one hundred or one thousand employees?

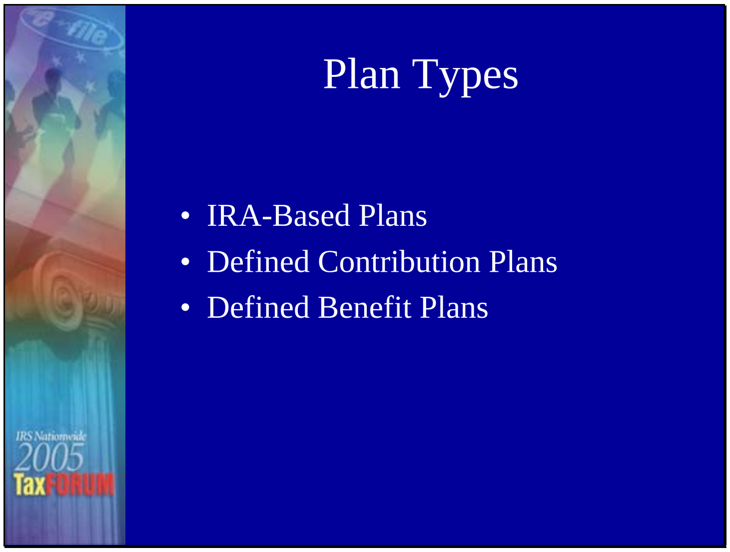
What kind of workforce does the employer have? Is this a high turnover industry? Are there seasonal employees? Is the workforce stable? Are the employees easily replaced?   Are the employees collectively bargained? Are they primarily married or single? Are they mostly the primary breadwinner of their households or the secondary? Are they high salaried or minimum wage workers?

What is the age of the workforce? Are they mostly Gen-Xers, Baby Boomers or are they rapidly approaching retirement age? Is there a mix of age groups?

And most important, what are the employer's goals in setting up the retirement plan? Do they want to attract and retain a competitive workforce? Is a retirement plan a benefit that the workforce would appreciate? Does the employer want to minimize contributing to the retirement of their workforce while maximizing the retirement for themselves? Do they want to sock away as much as possible or do they want to provide the minimum benefit? Do they want to take on the entire responsibility for funding the plan or do they want the employees to share this responsibility? Do they want to control the investment options of the plan or do they want to pass the investment control to their employees? Do they want to have access to their retirement accounts before retirement through loans or withdrawals? Do they want a plan with little administration or are they willing to trade higher administrative costs for greater contributions (and deductions) and flexibility? Do they want to provide a plan with a fixed benefit at retirement or do they want to provide a plan where the benefit at retirement depends on the growth of the investments?

These are just some of the questions the employer needs to address when deciding which type of retirement plan to sponsor. As you can now easily see, One Size Does Not Fit All in Choosing a Retirement Plan.

Slide 3



There are three basic types of retirement plans.

The first group is IRA-Based Plans. Examples include the Payroll Deduction IRA Plan, SEPs and SIMPLE IRA plans. These plans all invest in individual retirement arrangements and generally have lower administrative costs than the other plan types.   They don't have a lot of flexibility in plan design. None of these IRA-based plans allow for participant loans.   Generally, none of these IRA-based plans have an annual filing requirement.

The second group is Defined Contribution Plans. The ultimate retirement benefit in these plans depends on the amount of contributions that are made to the plan - either employer contributions or employee salary deferrals - and the investment returns of the retirement trust. In this type of plan, each year's contribution is limited and the investment risk lies with the employees. Examples of types of defined contribution plans are 401(k) plans, profit-sharing plans, money purchase pension plans, and employer stock option plans. Defined contribution plans have more administrative costs than the IRA-based plans, but also provide greater flexibility for the employer to design the plan toward their particular retirement goals. The plan sponsor is generally required to file a Form 5500, Annual Return/Report of Employee Benefit Plan or Form 5500-EZ, Annual Return of One-Participant (Owners and Their Spouses) Retirement Plan.

The final group is Defined Benefit Plans, which provide an annual stated benefit commencing at retirement age. For example, the plan could provide a benefit formula of 75% of the average compensation earned in the 3 final years of employment or another example might be 2% of final compensation times years of service. The amount of contribution that the employer must make is dependent upon the workforce and investment returns. In this type of plan, the investment risk lies with the employer. An enrolled actuary must determine the amount of the required contribution each year. The contribution that is needed to fund the benefit of the plan must be made, regardless of employer profits. If the contribution is not made, there is an excise tax. These types of plans generally have a higher administrative cost than the other plan types and a Form 5500/5500-EZ with a Schedule B must be filed each year.

Additional information on each of these plan types can be found at our web site, www.irs.gov/ep.

Slide 4

For retirement plan purposes, a self-employed person is considered an employee. A self-employed individual with no other employees can choose any of the three types of plans that we have discussed. The type of plan they adopt is based upon their retirement goals and individual circumstances.

Of the IRA-based plans, a self-employed individual with no employees may want to consider a SEP. Under a SEP plan, they can contribute up to 20% of compensation into the plan each year, or in bad years, they can contribute nothing at all. A SEP is easy to adopt and administer. If an IRS Model Form 5305-SEP is used to adopt the plan, the employer just fills out a few lines and signs the form. The form is not filed with the IRS and the employer has no future filing requirements. The self-employed person just needs to select an IRA for their contributions and send a check. It's that easy.

Of the defined contribution plans, a self-employed person with no employees may want to consider a profit-sharing plan. If they are relatively certain that they are not going to have any employees any time soon, they may want to consider sticking with a SEP, which has the same contribution limits as a profit-sharing plan, the same contribution flexibility and less administration.

Another defined contribution plan for a self-employed person with no employees to consider is a 401(k) plan, which is a profit-sharing plan with a cash or deferred arrangement. Many of you may have heard of "Uni-Ks" or "Solo-Ks." These are just names that marketers have attached to a one-participant 401(k) plan. There is no separate area of the law for a one-participant 401(k) plan. They are governed by the same law that applies to traditional 401(k)s with any number of participants. The catalyst that brought these plans to the forefront was a law change. Under a 401(k) plan, the participant can defer up to the lesser of $14,000 or 100% of compensation in 2005 and the employer (the self-employed person) can make a contribution in the amount of the lesser of 100% of compensation or $42,000. The total of the salary deferral and employer contribution can not exceed the lesser of 100% of compensation or $42,000 for a participant. Participants aged 50 and over can make an additional deferral of up to $4,000 in 2005. As a side note – all of these dollar amounts are indexed for inflation each year. So you can see, a 401(k) plan may allow for a greater contribution than a SEP plan, without the funding commitment of a defined benefit plan. This only works if there are no other employees, except a spouse. Once even one more employee comes on board the ability to make the increased contribution could evaporate because if the other employee chooses not to make any salary deferrals, the self-employed person's salary deferrals will be limited to a percentage of the other employee's deferral. In addition, administrative costs will increase as nondiscrimination testing will need to be completed.

Whether or not a self-employed person with no employees would choose a defined benefit plan would depend on three major factors. First, their age. Second, whether or not they want to be tied to an annual funding requirement and third, whether or not they are willing to pay for the increased administrative costs. Remember, with this type of plan, you must hire an enrolled actuary to determine your annual required contribution.

If the self-employed person is older and doesn't have a lot of money saved for retirement and is able to make large contributions, this could be the perfect plan for them. If, on the other hand, they are young and have lots of years to save for retirement, they may want to consider a defined contribution plan. If the business is just starting out and there is not a certainty of cash flow, the defined benefit plan may not be the plan to adopt.

Slide 5

So now let's look at a self-employed person with employees. This complicates things. Does the employer want to fund contributions? If the answer is no, then a payroll deduction IRA would be a good plan to consider. In this type of plan, the employer simply withholds the employees' contributions and sends them to the financial institution holding the employee's IRA. That's it. The employer is facilitating retirement savings with no employer costs. However, with this type of plan, the annual contribution limit is much lower than with other types of plans.

Under a SEP, in exchange for the simplicity of adopting the plan and filing requirements, the only employees that can be excluded from participation in the plan are generally those who are under age 21, have not worked for the employer in the last 3 out of 5 years, have earned less than $450 and collectively bargained employees. Everyone else must be included, even if they die or otherwise terminate during the year. And all employer contributions are 100% vested (or owned) immediately.

If the employer has 100 or fewer employees who earned $5,000 or more during the preceding calendar year, does not currently sponsor another retirement plan and is looking for low administrative costs, another plan to consider is a SIMPLE IRA plan. Like a SEP, the SIMPLE IRA plan can be adopted by signing an IRS Model form, either Form 5304-SIMPLE or Form 5305-SIMPLE. This type of plan allows employees to defer up to $10,000 in 2005 with an additional catch-up contribution available in the amount of $2,000 for employees aged 50 and over. In addition, the employer is required to make a contribution - either a 2-percent non-elective contribution to all eligible employees or a dollar-for-dollar match up to 3-percent of compensation.

This type of plan does not have an age limit, so employees under the age of 21 must be included if they meet the other eligibility requirements.

There are three different types of 401(k) plans that a self-employed person with employees can adopt. The most popular are the traditional 401(k) plan and safe harbor 401(k) plan. In addition there is a SIMPLE 401(k) plan.

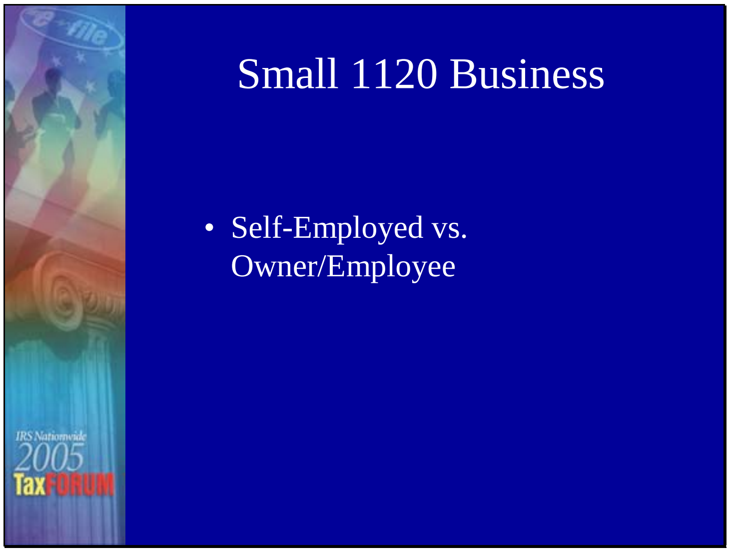
The traditional 401(k) plan provides the greatest flexibility of the three types. The employer has the discretion to make contributions on behalf of the employees or to match their deferrals or both. These employer contributions can be subject to a vesting schedule. A traditional 401(k) plan must satisfy an annual nondiscrimination test to ensure that the benefits for the rank-and-file employees are proportional to benefits for the owner/self-employed person, so the administrative costs with this type of 401(k) plan will be higher than the costs of the other plans.

A safe harbor 401(k) plan is similar to a traditional 401(k) plan, but it requires employer contributions that are fully vested when made. This plan is not subject to the annual nondiscrimination testing requirement of a traditional 401(k) plan.

Does the self-employed person want simplicity or do they want flexibility in defining the eligibility and vesting requirements in the plan? If they want greater flexibility, they may want to consider a profit-sharing plan. Under this type of plan, the employer can exclude all employees under age 21 and those who have never worked at least 1,000 hours during a year. In addition, they can apply a graduated vesting schedule.

Finally, a defined benefit plan may be a plan to consider. If the business owner is older, with the goal to maximize their benefit, this may be a choice to consider. Additionally, this type of plan tends to reward long-term employees. Again, this type of plan has significantly higher administrative costs. For those who really want to maximize their retirement savings, both a defined benefit plan and defined contribution plan can be adopted.

Slide 6



A small incorporated business that files a Form 1120 for income tax purposes can adopt the same types of plans that were described in the previous slide. The major difference between an 1120 adopting a plan and a self-employed individual adopting a plan is the definition of compensation used for contribution purposes. For the self-employed individual, the maximum contribution allowed is based on earned income. Earned income is net earnings from the business minus the self-employed person's deduction for self-employment tax and further reduced by the self-employed person's contributions to their retirement plan. In effect, if the business makes a contribution in the amount of 25% of compensation to its employees, the maximum contribution that the self-employed person can make to their own retirement is 20% of their net earnings from self-employment. Publication 560 provides a worksheet and table for calculating the maximum deductible contribution to the plan. An owner/employee of an 1120 business calculates their maximum contribution based on W-2 income, subject to the compensation limitations of the law, so their contribution would be 25% of compensation, just as all of the other employees.

We will go through an example illustrating this difference later in the presentation.

Slide 7

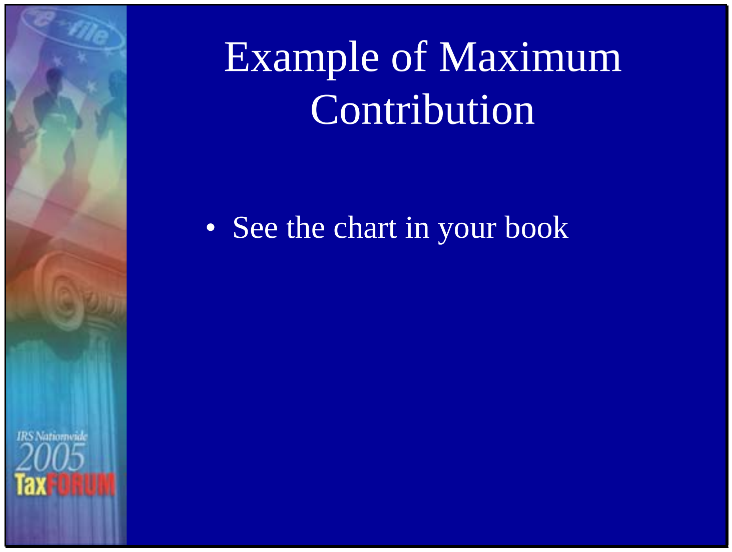
If an employer has more than 100 eligible employees, then some plans are eliminated from consideration and some are just not practical. An employer with more than 100 eligible employees would not be able to adopt a SIMPLE 401(k) or a SIMPLE IRA plan. An employer with more than 100 eligible employees may still be able to adopt a SEP, but the SEP must cover all employees over age 21, who performed service in three of the past five years, who received compensation of at least $450 and who were not collectively bargained. This may not be a good option if the employer hires a lot of part-time or summer help that returns year after year, and the goal is to reward the permanent, rather than temporary employees.

Employers with this number of employees may want the increased flexibility that comes with a 401(k), profit-sharing or defined benefit plan.

Slide 8

A seasonal employer has additional complications to consider. Does the employer want to design the plan to exclude as many of the seasonal employees as possible – if so, then a SEP is not a good choice. Or is this the type of business where it is difficult to find seasonal employees and the employer would like to entice them to come back to work year after year – then a SEP may be a good choice. Would the seasonal employees be willing to make salary deferrals? If not, then a 401(k) plan is probably not a good choice. Are the seasonal employees under age 21? Does the employer want to exclude them? Then a SIMPLE IRA plan is not a good choice.

Slide 9



The chart in your book demonstrates the differences in the maximum contribution that can be made to some of the IRA-based and defined contribution plans. The chart says "real life example." It may not be real life for a lot of employees to make $200,000, but the chart gives you real life examples of how the maximum contributions differ based on the type of retirement plan. As you can see, the maximum contribution varies widely, as well as the sources of the contribution.

In this real-life example, a 30-year old individual with $200,000 in income in 2004 is trying to decide which type of plan to choose. This individual has always invested in IRAs in the past, but has no other retirement savings. The goal is to maximize the retirement savings. We will look at the example for two different business situations: Example 1 where the business is an 1120 Corporation and the employee receives wages reported on Form W-2 and Example 2 where the business is a sole proprietorship and earnings are determined on Schedule C (Form 1040). Please note that in the previous slides we have been using the 2005 dollar limitations. In this slide, the employer is looking at the 2004 limitations to determine which plan will be adopted in 2005.

In both of these examples, whether the business is an 1120 Corp or a sole proprietorship, if the business had adopted a Payroll Deduction IRA plan, the employee would have been able to contribute $3,000 to their IRA in 2004.

The maximum contribution to a SEP for 2004 was the lesser of 25% of compensation or $41,000. The maximum contribution for the owner/employee of the 1120 Corporation and the sole proprietor were calculated differently because the definition of compensation is different for the two entities. Please remember that the law limits the amount of compensation that can be taken into consideration for retirement plan purposes. For 2004, that limit was $205,000. In 2005, it is $210,000. So in Example 1, the 1120 Corporation, the maximum contribution is the lesser of 25% of $200,000 ($50,000) or $41,000. Therefore, the contribution for the employee could not exceed $41,000.

The maximum contribution for a sole proprietor is calculated differently because the definition of compensation is different for a sole proprietor. The maximum contribution is based on “earned income” which is net earnings from self-employment reduced by the deduction for one-half the self-employment tax and further reduced by contributions to a qualified retirement plan. In this example, the sole proprietor’s net profit from Schedule C was $200,000. The sole proprietor’s deduction for one-half of self-employment tax would have been $8,128. Because the maximum that can be deducted is 25% of compensation that remains after the plan contribution, the rate for the self-employed person works out to 20%. This reduced rate takes into account the reduction for contributions to the retirement plan. The maximum contribution that could have contributed to the SEP for 2004 would have been the lesser of:

1) ($200,000 – $8,128) x 20% or $38,374;

2) the maximum compensation that can be considered for plan purposes for 2004, $205,000, multiplied by 25%, or $51,250; or

3) $41,000.

In this case the lesser of these three amounts is $38,374. Publication 560, Retirement Plans for Small Business (SEP, SIMPLE and Qualified Plans) includes an easy to follow worksheet to calculate the contribution for a self-employed person.

If the employer would have chosen a SIMPLE IRA plan for 2004, the employee could have contributed $9,000 to their SIMPLE-IRA. Under a SIMPLE IRA Plan, the employer is required to make a contribution of either 1) a 2% non-elective contribution or 2) a dollar-for-dollar match up to 3% of pay. With a SIMPLE IRA plan, the match for the employee will be calculated differently because the definition of compensation is different for an 1120 Corporation and a sole proprietor. For example 1, the 1120 Corporation, the match would simply be 3% of the employee’s compensation in the amount of $200,000, limited to the $9,000 deferral. So the match for the employee in example 1 is $6,000. In example 2, the sole proprietorship, the match is based on net-earning from self-employment, which is line 4 of Schedule SE for 2004. In this example, net earnings from self-employment would be calculated as $200,000 multiplied by .9235 or $184,700. This is multiplied by 3% to equal an employer match for the employee in the amount of $5,541.

Now let's look at a 401(k) plan. In 2004, employees could elect to defer up to $13,000 of their compensation. Because we are looking at maximum contributions, in our examples we assume the individual elected the maximum. In example 1, the 1120 Corporation, the maximum contribution is the lesser of 100% of compensation or $41,000. $41,000 would be the maximum. However, the employee has already deferred $13,000, so the difference, $28,000 would be the maximum employer contribution. Although compensation is calculated differently for a sole proprietor, the maximum total contribution in example 2 is still $41,000. Because the employee deferred $13,000, the maximum employer contribution would be the difference, $28,000.

Under a pure profit-sharing plan, there is no employee contribution. In this case the maximum employer contribution in both examples 1 and 2 is limited to the lesser of 100% of compensation or $41,000. In both situations the lesser amount is $41,000. The Code provides a limit on the contribution per participant – that is what we have been focusing on so far. This limit is under Code section 415. However, the Code also provides a limit on the amount of contribution that may be deducted. This is under Code section 404. The 404 limit is 25% of total participant compensation. In this case, compensation is calculated differently, depending on the business entity. If we were just looking at the 415 limit, the self-employed employee's contribution would be limited to the lesser of 100% of compensation or $41,000. However, the maximum deductible contribution is $38,374.

As you can see from this example, One Size Does Not Fit All when choosing a retirement plan.

Slide 10

The Internal Revenue Service, along with the Department of Labor, Small Business Administration and US Chamber of Commerce has developed a publication, Choosing a Retirement Solution for Your Small Business, specifically designed to help explain the various retirement plan options with a side-by-side comparison of the various features of the different types of plans.

As we have discussed during this presentation, there are many points that need to be taken into consideration besides how much can be contributed:

* What administrative burden will be involved?
* Is there an annual filing requirement?
* What commitments are there to the funding?
* Who funds it – employer/employee – both?
* Will employees have access to their contributions?

These questions are all addressed within the publication. If you visit our exhibit booth, you can pick up a copy of this publication along with a variety of other publications to assist you in operating your plan. Please note that on page 2-2 and 2-3 of your Seminar Handbook there is an updated version of the side-by-side comparison chart featured in this publication. We are currently working with the publication co-sponsors to refresh it and plan to have it available to the public in the fall.

We also have available at our exhibit booth or on our website the following publications:

Lots of Benefits – Pub 4118 - This product discusses the benefits to employers and employees of setting up a retirement plan.

Have you had your Check-up this Year? For SIMPLE IRAs, SEPs, and Similar Retirement Plans – Pub 4405 - This product discusses the importance of paying regular attention and care to your retirement plan to ensure that it is operating properly.

Individual Retirement Arrangement (IRA) Resource Guide – Pub 4395 - This CD-Rom provides one-stop assistance on traditional IRAs, Roth IRAs, SEPs, SIMPLE IRA plans, and Payroll Deduction IRA plans.

Two publications which provide a more in-depth look at the requirements of establishing and operating retirement plans - **401(k) Plans for Small Businesses – Pub 4222** and **SIMPLE IRA Plans for Small Businesses – Pub 4334.**

Finally, I would like to call your attention to the checklists that we have available at our exhibit booth. These are designed as a "quick tool" to keep your SEP or SIMPLE IRA plan in compliance with many of the important tax rules. These checklists are not a complete description of all of the plan requirements and should not be used as a substitute for a complete plan review. These checklists are also available at our web site. The online checklists have a really neat feature in that you can click on the underlined items in the checklist and are directed to an expanded explanation of those items. Please take the time to stop by our booth and pick up these and other products that we have available to assist you.

We will be giving a presentation later today called "Retirement Toolbox." The presentation will give additional information on the retirement tools that are available for your use.

Slide 11

We at the IRS have developed many tools to assist you and your clients in the retirement plan area, whether your question is “How do I choose a retirement plan?” or “How much money can I contribute to my retirement plan?” or “This plan isn’t working for me anymore. How do I terminate it?”

You can visit our web site at www.irs.gov/ep. The Retirement Plans web page has a new name and look. It’s now available under “Retirement Plans Community” on the main www.irs.gov landing page. You will now find information for “Benefits Practitioner,” “Plan Participant/Employee” and “Plan Sponsor/Employer.” The pages are populated with all of the retirement plan information that you have come to expect from Employee Plans. We are taking material written for practitioners and re-drafting it for plan sponsors and participants. We will continue adding, redrafting and editing retirement information for each of these customer groups.

There are two different ways that you can discuss your question with a retirement plan specialist. You can call our Customer Account Services at (877) 829-5500. This is a toll-free number.

If you would prefer, you can e-mail your question to RetirementPlanQuestions@irs.gov. All questions submitted via e-mail must be responded to via telephone, so please remember to include your phone number in your message and a customer service representative will call you with the answer to your question.

Finally, we have two free Newsletters that you can subscribe to. The first is the *Employee Plans News*. This newsletter is geared toward the practitioner community and is more technical and involved than our newest newsletter, *Retirement News for Employers*. This newsletter is geared toward the plan sponsor. Each is an electronic newsletter and is posted on our website as a PDF document every quarter. Being a web-based product, the newsletters make an excellent reference guide as they are chock-full of embedded links to guidance sources, products and other sites pertinent to the subject at hand.

Subscribing to these newsletters yourself, as well as your clients, will keep you abreast of all the latest news regarding retirement plans, legislation, trends, tips on various subjects, as well as keeping you informed of the latest product releases from the office of Employee Plans Customer Education & Outreach!

Subscribing is easy. Just go to “Newsletters” under our web page, www.irs.gov/ep, click on “Employee Plans News” or “Retirement News for Employers”, click on “Subscribe,” then provide us with your e-mail address. That’s all it takes.

Have no fear; all you will receive in your e-mail inbox is a message alerting you to when our latest issues are posted on our web page with a link bringing you to it when you are ready to use it. We will not be bogging down your e-mail with large PDF files.

Another advantage of subscribing is that we use the same distribution list to announce major late-breaking news on through Special Editions of the newsletter, when it happens!

So sign up for yours today!

We welcome suggestions for articles in our newsletters. You can share with us by e-mailing us at RetirementPlanComments@irs.gov.

Slide 12

In conclusion, you can now see that Retirement Plans are not "One Size Fits All." There are many things that must be taken into consideration when deciding on which type of plan to adopt. The plan that works great for one employer may not work at all for another employer. Careful consideration must be taken when choosing a retirement plan to avoid problems down the road.

Please join my 2nd presentation, "Retirement Toolbox," later today where I will share examples of the types of mistakes that we see being made in operating SIMPLE IRA and SEP retirement plans and how to find these mistakes by conducting a "retirement plan check-up."