Solutions for Taxing Times
Help business owners help themselves with non-traditional retirement plan designs

Updated for 2014
Business owners are in a precarious position.

Rising Taxes.

Rising Costs.

Revenue Threats.

Healthcare Reform.

Operational Concerns.

Protecting and Growing Assets.
Taxing new challenges call for non-traditional solutions

In 2013, new taxes were introduced that pose ongoing threats to asset accumulation and protection for business owners.

Many are confused about what these tax laws mean to them and what potential solutions are available. That’s where you and qualified retirement plans come in. Using advanced retirement plan designs, you may be able to help successful business owners reduce their current taxable income.

Why act now?
- It’s timely. Many business owners face a quarterly tax bill and have already felt the additional pain in 2013. They are looking for relief now.
- You know these people. Many of them are your clients today and many others are in your territory.
- Your solutions may help you keep clients you already have and possibly generate new opportunities.
- We’ll make it easy to get educated, access plan design experts, and identify opportunities for client retention and the growth of your business.

Get started: Get educated

Our core brochure helps clients and prospects better understand how they can protect — and even grow — their assets in this challenging tax environment.

27% of high net worth individuals have no one advising them on investment strategies.¹

Scaling the fiscal cliff

This chart outlines some of the tax law changes that were introduced in 2013 and underscores the cumulative effect of these taxes at rising income levels. The impact to your clients and prospects may vary depending upon their particular situations.

<table>
<thead>
<tr>
<th>Income level:</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>$406,750 (tax filing status: single)</td>
<td>4.6% tax increase on the top rate of adjusted modified income in excess of the $406,750/$457,600 threshold</td>
</tr>
<tr>
<td>$457,600 (tax filing status: married filing jointly)</td>
<td>5% tax increase on investment income from outside of a qualified retirement plan</td>
</tr>
</tbody>
</table>

- **Talking point: Tax Component Impact**
  - In 2013, the top tax rate returned to 39.6% from 35% and the capital gains tax rate returned to 20% from 15%.
  - Capital gains and qualified dividends maximum rate increased to 20%.

<table>
<thead>
<tr>
<th>Income level:</th>
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</thead>
<tbody>
<tr>
<td>$254,200 (tax filing status: single)</td>
<td>Some itemized tax deductions are now limited; also impacts standard deductions</td>
</tr>
<tr>
<td>$305,050 (tax filing status: married filing jointly)</td>
<td>The total dollar amount allowed for exemptions begins phasing out for dependents such as qualifying children</td>
</tr>
</tbody>
</table>

- **Talking point: Tax Component Impact**
  - Currently, popular deductions with limits include mortgage interest, property taxes, and medical expenses.

<table>
<thead>
<tr>
<th>Income level:</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>$200,000 (tax filing status: single)</td>
<td>New 0.9% tax on earned income on amounts in excess of the $200,000/$250,000 threshold</td>
</tr>
<tr>
<td>$250,000 (tax filing status: married filing jointly)</td>
<td>New 3.8% tax imposed on investment income such as capital gains, dividends and interest</td>
</tr>
</tbody>
</table>

- **Talking point: Tax Component Impact**
  - These taxes, first introduced in 2013, are aimed at both earned and investment income.

<table>
<thead>
<tr>
<th>Earned income of all levels:</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security tax holiday ends</td>
<td>2% increase in payroll taxes up to $117,000</td>
</tr>
</tbody>
</table>

- **Talking point: Tax Component Impact**
  - In 2013, the employee portion of Social Security taxes returned to 6.2% from 4.2% on wages up to the first $117,000.


1 May be subject to annual wage base limit changes.
Think tax-deferred qualified plans

Dr. Pat Smith, M.D.

Age: 45
Tax Status: Married filing jointly, 1 child
Self-Employment Income: $500,000
Single Employer, No Employees

In this hypothetical illustration, Dr. Pat Smith is an affluent business owner. The chart below shows the impact of some of the tax law changes that were introduced in 2013 and the benefits of contributing the maximum allowable amount into a qualified retirement plan.

This hypothetical illustration covers tax impacts to Dr. Smith’s household income

<table>
<thead>
<tr>
<th>Earned income</th>
<th>Without a qualifying plan contribution</th>
<th>2014</th>
<th>With a qualifying plan contribution ($52,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable self-employment income</td>
<td>$500,000</td>
<td></td>
<td>$448,000</td>
</tr>
<tr>
<td>Social Security tax on self-employment income</td>
<td>$14,508 (12.4% on first $117,000)</td>
<td></td>
<td>same</td>
</tr>
<tr>
<td>Medicare tax on self-employment income</td>
<td>$14,500 (2.9% rate)</td>
<td></td>
<td>$12,992 (decrease of $1,508) ↓ (2.9% rate)</td>
</tr>
<tr>
<td>Additional Medicare tax on self-employment income</td>
<td>$2,016 (0.9% above $250,000)</td>
<td></td>
<td>$1,555 (decrease of $461) ↓ (0.9% above $250,000)</td>
</tr>
<tr>
<td>Income tax and AMT on self-employment income</td>
<td>$134,479 (39.6% rate)</td>
<td></td>
<td>$115,765 (decrease of $18,714) ↓ (35% rate)</td>
</tr>
<tr>
<td>Total federal taxes on self-employment income</td>
<td>$165,503</td>
<td></td>
<td>$144,820 ↓</td>
</tr>
</tbody>
</table>

Reduction in current taxes on self-employment income by implementing a qualifying plan: $20,683 (12.5%) ↓

Bottom line: $20,683 (12.5%) savings by using the power of a tax-deferred qualified plan

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1 Assumes one-income household, self-employment income of $500,000 prior to any contributions to a qualifying tax-deferred retirement plan
2 The hypothetical illustration is not intended to provide tax, accounting or legal advice. As with all matters of a tax and legal nature, clients should consult their tax or legal counsel for advice. The illustration is not intended to reflect the actual performance of any specific investment. Individual experience will likely vary.
3 Earned income is based on wages, salaries, tips, and other taxable employee and self-employment income
4 Based on standard deductions and exemptions including income-based phaseout rules introduced in 2013
5 Based on standard deduction limitation of 3% of adjusted gross income in excess of IRS stated income thresholds and personal exemption phased out, as introduced in 2013
Four ways to start providing a solution for your clients right now

Make your point with a tax-deferred advanced plan design illustration

Tap into MassMutual’s network of local third party administrators (TPAs) to create a custom plan design illustration for your client or prospect, often for little or no expense. Advanced retirement plan designs can be structured to allow business owners to contribute a larger percentage of eligible compensation.1

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Benefit</th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated Allocation</td>
<td>A defined contribution plan with an allocation formula based on a Social Security taxable wage which allows for larger contributions for highly compensated business owner(s)/partner(s).</td>
<td>The ability to weight contributions towards higher compensated employees is more limited than in other advanced plan designs.</td>
</tr>
<tr>
<td>New Comparability Allocation</td>
<td>A defined contribution plan that provides business owner(s)/partner(s) the flexibility to provide larger contributions to preferred groups of employees based on business classifications (typically owners and/or highly compensated individuals).</td>
<td>A business owner needs to consider the number of employees and whether enough benefits can be weighted to the owner(s)/partner(s) to justify the added administrative costs of this type of plan.</td>
</tr>
<tr>
<td>Cash Balance / Defined Benefit</td>
<td>A defined benefit plan can be designed to allow business owner(s)/partner(s) to weight plan benefit towards themselves, potentially realize significant business tax deductions and accelerate their accumulation potential. A Cash Balance defined benefit plan may allow a business owner to contribute significantly more than a traditional defined contribution plan.</td>
<td>A business owner needs to consider the company’s profit history and whether the business can meet its annual mandatory employer funding requirement. In addition, the sponsor must consider its responsibility to achieve the stated investment return as defined in the plan document.</td>
</tr>
</tbody>
</table>

Generate a targeted list of clients and prospects who need you

Put MassMutual’s CUSTOMCONSULTANT to work generating new opportunities for you. Within seconds, our pre-set Larkspur queries can identify businesses in your territory that may benefit from a discussion about advanced plan designs. There are no plan or minimum asset requirements and the service is free.

1. Visit MassMutual’s advisor website and log in.2
2. Click “Larkspur Data Lead Generator” to generate a list of local prospects such as:
   - Businesses without an advanced plan design
   - Plans with an existing advanced plan design

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1 Based on the design, Cash Balance plans can allow the business to provide larger contributions to fund a hypothetical benefit for preferred groups of employees based on business classification. Plan sponsors should consider the implications to all participants before choosing an advanced plan structure.
2 You must be registered to access MassMutual’s custom queries through Larkspur. May be subject to Broker/Dealer firm approval.
MassMutual’s Impact Calculator\(^1\) helps business owners instantly estimate their annual tax savings and projected retirement account balance, based on actual or hypothetical scenarios. This can be a great tool for showing your clients and prospects how they can work toward protecting their assets.

**Business owners can view potential benefits from both a business and individual perspective.**

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**Engage centers of influence**

Connect with the business community and other experts who serve it. These influencers have direct access to the business owners you want to reach and can offer expertise that makes your job easier. They also may be a rich source of referrals.

- Connect with the experts. Certified Public Accountants (CPAs) and TPAs can be important conduits to business owners and partners of professional practices.
- Maximize networking opportunities with groups such as Chambers of Commerce, Rotary Clubs, and other business exchanges.

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\(^1\) May be subject to Broker/Dealer firm approval.
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Cash Balance plan designs are complex and require the assistance of legal and tax advisors and third party administrators. Additionally, Cash Balance plans, like defined benefit plans, generally require annual employer funding and they may not be suitable for some businesses. MassMutual’s materials highlight Cash Balance plan advantages, but certain restrictions and limitations will apply based on plan design and retirement plan rules, among other factors, which may affect tax deductions, funding levels and distributions of plan benefits. For a more complete picture of Cash Balance plans, please contact MassMutual at 1-800-874-2502, option 4.

Many tax planning strategies emphasize the deferral of current income taxes on the basis that your federal income tax rate may be lower at retirement. Please keep in mind that federal income tax rates are unpredictable and may be higher when you take a distribution than at the time of deferral. Other factors, including state tax rates and your income, may also affect your overall tax rate upon distribution. MassMutual does not predict or in any way guarantee favorable tax results.