ERSOP®

Entrepreneur Rollover Stock Ownership Plan®

Start-up

What is an ERSOP® Plan?

- **First and Foremost: it is an "ERISA" profit sharing plan in which the employer accumulates funds, tax deferred, for all eligible employees.**
- **Secondarily: the ERSOP® plan accepts rollovers.**
- **Tertiarilly: the ERSOP® plan is drafted to permit assets rolled into the plan to be used** *to fund the capital needs of the sponsoring employer* **by investing those assets in "qualifying employer securities" [stock].**
- **Optionally: it may have a 401(k) [CODA - salary deferral].**

What Money Can Be Used -

- 401(a): Pensions, Profit Sharing, ESOPs
- 401(k) (all are first Profit Sharing Plans)
- 403(b) “Teachers’ Annuities”
- 457 State, County & City
  – (government plans only)
- U. S. Gov. Thrift & Savings
- IRAs –
  – Traditional IRAs
  – Rollover IRAs
  – SEPs & SIMPLEs
  – Roth IRA*
- Except –
  – Inherited Non-spouse IRAs

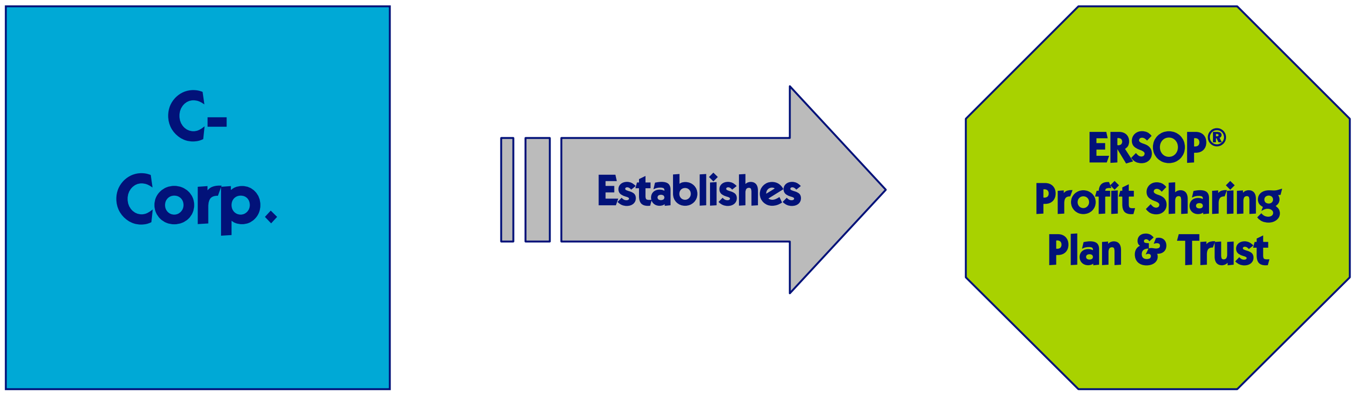
Step 1 – The CORPORATION

C – Corp.

Even if you are doing business as another type of entity, you need:

- a Corporation because ERISA §407 requires "Stock",
- a C – Corp. because Sole Proprietors, Partners and S –Corp. Shareholders are Excluded by IRC §4975(f)(6) and ERISA §408(d),
  - LLC Members are Partners under the Code and
  - LLCs do not have stock as required under ERISA.
- Any pass-through entity would be too good to be true.

Step 2 – The ERSOP® Plan



- The retirement plan for you and any other employees that may become eligible,
- An ERISA profit sharing plan, with special enabling language.

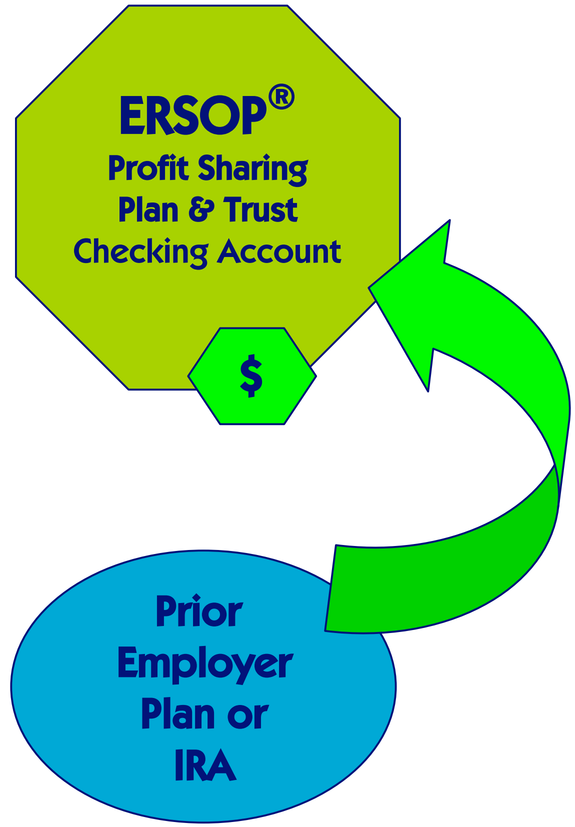
Step 2 – cont.

C-Corp.
Checking Account

ERSOP®
Profit Sharing
Plan & Trust
Checking Account

At your favorite bank, YOU establish a checking account for your new C-Corporation and another checking account for the Profit Sharing Plan & Trust.

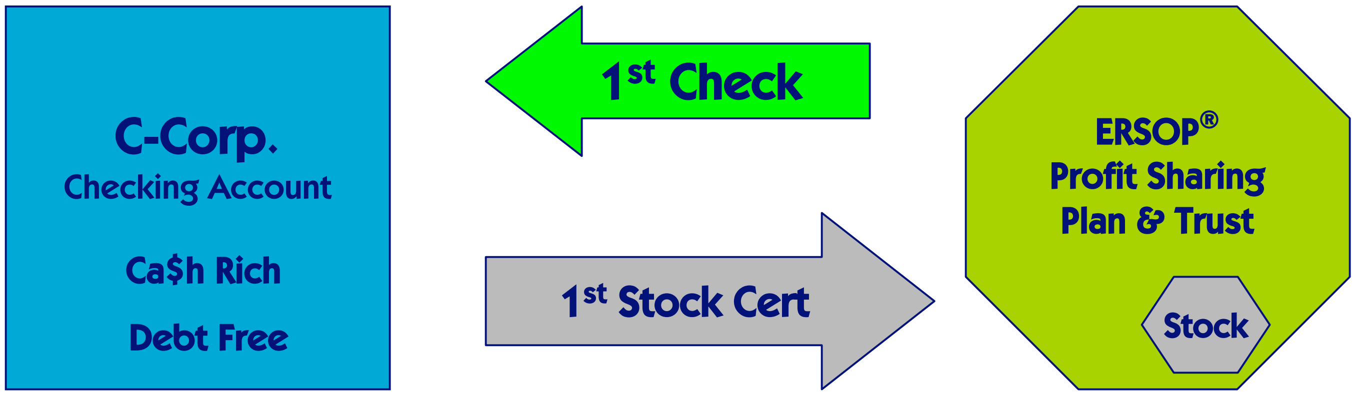
Step 3 – The Rollover



We assist you with the rollover of your accounts from IRAs and 401(k)s into your ERSOP® Profit Sharing Plan & Trust checking account at your favorite bank.

Still it generally takes just 2 weeks to get the money to move.

Step 4 – The Funding of the Corporation

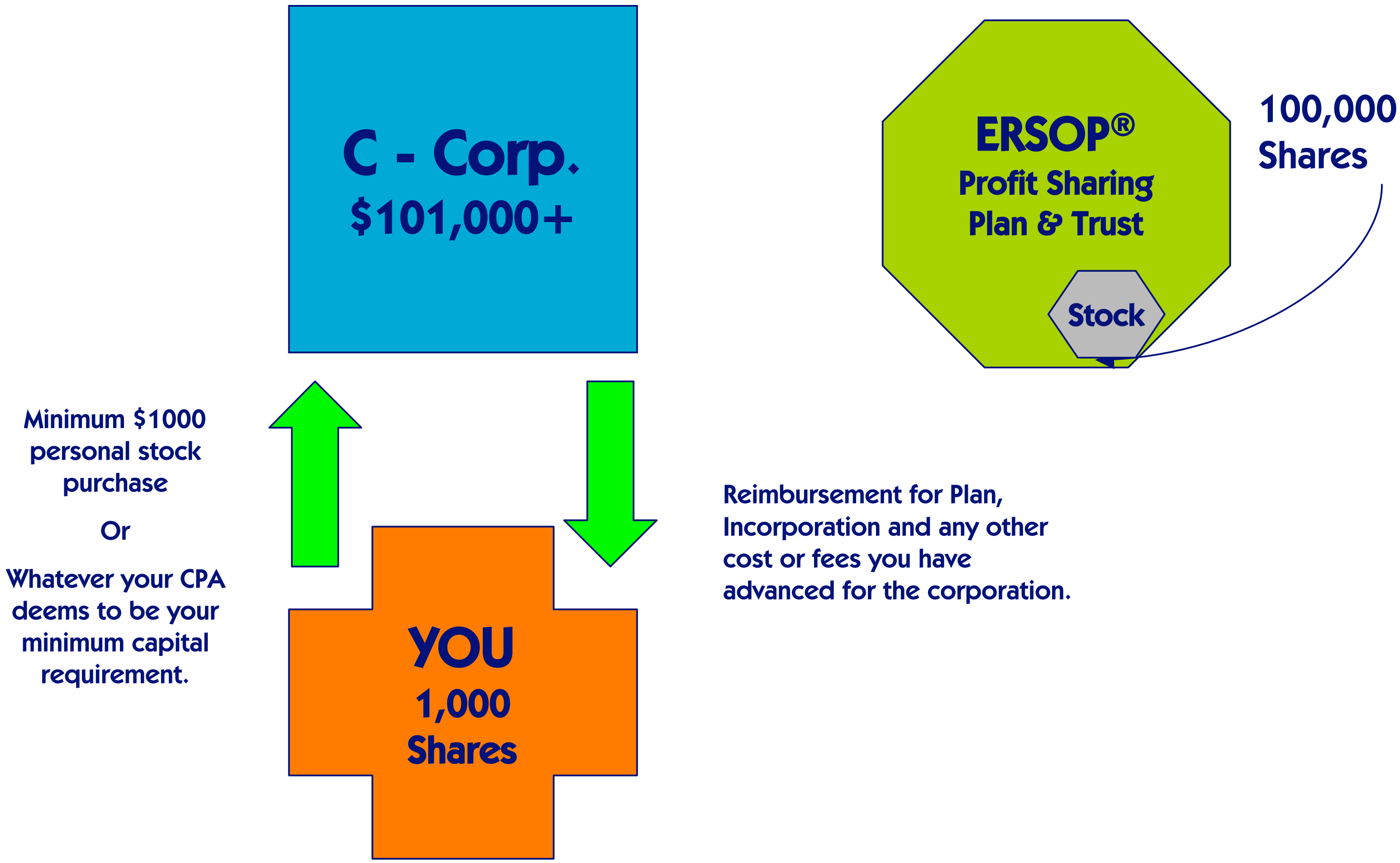


You as Trustee, from the Trust checking account, issue the first check to be received by the C-Corp checking account.

You as President issue the first stock certificate back to you as Trustee for the benefit of your rollover account.

Step 4 – cont.

101,000 Shares @ $1 per Share



Startup Costs

- ✓ **Cost of Incorporation**

  (budget ~$1,000)

- ✓ **Plan Setup Fee - $4,000**

  Less $500 non refundable Tax Credit if there is at least 1 Non-Highly Compensated Employee.

- ✓ **IRS Filing Fee - $300**

  May be refunded if there is at least 1 Non-Highly Compensated Employee at the time of submission to the IRS for an individual favorable determination letter – and you do want one of these. This individualized IRS Favorable Determination Letter based on full disclosure is very helpful during an IRS audit [see memo].

Annual Fees

- ✓ Administration ~$800
    - plus per participant and per account fees in excess of 5.
    - less 50% [limit $500] non refundable tax credit first 3 year
  - – Allocations of Trust Gains & Losses
  - – Allocations of Contributions & Forfeitures
  - – Participant Statements
  - – Summary Annual Reports
  - – IRS Form 5500
    - – $25 per day, $15,000 max penalty for failure to file
    - – Electronic filing mandatory coming soon
  - – Exit Planning
  - – Continuing Situation Reassessment

The Three Rules of ERISA Section 408(e)

1. If such acquisition, sale, or lease is for adequate consideration (fair market value),
2. If no commission is charged with respect thereto" . . . "to or from a disqualified person,"
3. If the plan is an eligible individual account plan [as defined in section 407(d)(3)].

Why you cannot use a self-directed IRA?

- ERISA 407(d)(3) excludes IRAs from the definition of "eligible individual account plans."
- IRC Sec. 4975(e)(2)(H) . . . Officer, director or having any of the powers or duties of an officer or director . . . is a "disqualified person."
- Our clients are Entrepreneurs.

Magic Words

Call whomever (whoever?) is the custodian of your retirement funds [former employer benefits department, HR, broker, mutual fund house] and tell them:

- "I wish to do a 'direct rollover' to my new employer's plan."

Then ask them:

- "Will you bank wire the funds?"

If they say yes tell them you will get back to them with the bank wire instructions. If they say no, move on.

Magic Words, cont.

Then ask them:

- "Do you have a form you wish me to complete?"

  or

- "Can we do this over the phone?"

  or

- "Do you wish my new employer's plan to generate a form?"

If they have a form, we will assist you in its completion. If they want our form, it is the first form we send to you via email. Secure Medallion Signature Guarantees from your bank or broker.

Ask someone who has recently quit how long it took them.

Still, it generally takes just 2 weeks to get the money to move!

We tell the client everything they need to know before they commit.

Your assignment:

Go forth and find that business for which you cannot wait to get up in the morning to go do – even if it is only for the @#%&* money.