

How a 401(k) Salary Deferral Plan Works



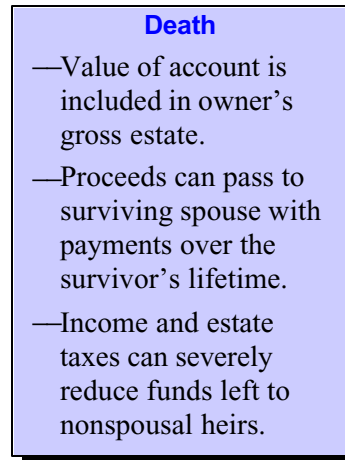
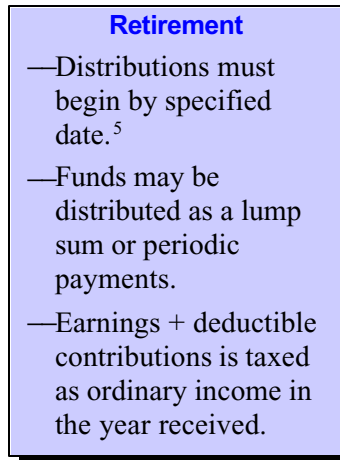
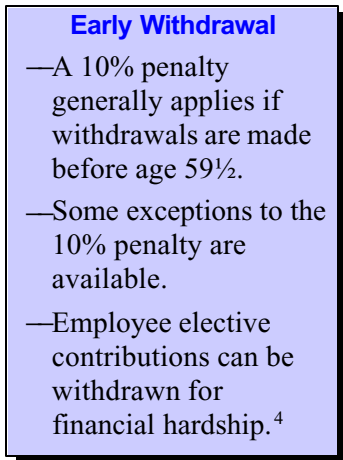
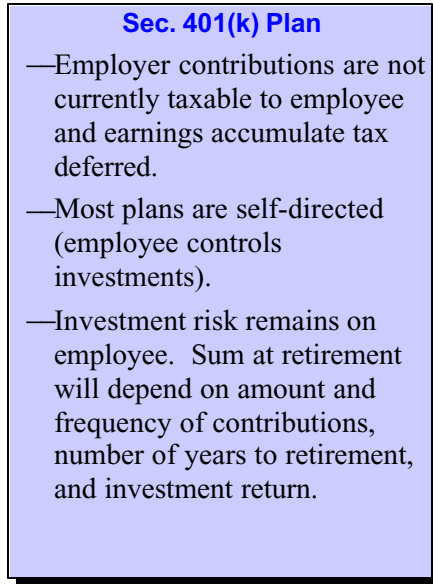
Employer

- May provide a voluntary matching fund.
- Contributions are tax deductible to the business.¹
- May make discretionary contributions from year to year, so long as allocation is nondiscriminatory.
- Special nondiscrimination rules apply.



Employee

- Employee elects to defer a portion of salary or bonus.
- Amounts deferred are subject to FICA and FUTA taxes but not current income tax.
- Employee's elective contributions are limited to \$14,000² per year (2005).³



¹ The total contribution from both employer and employee may not exceed 25% of covered payroll, including participant deferrals, employer matching contributions and employer discretionary contributions.

² 2005.

³ For 2002, the allocation total of employer contributions and employee deferrals to a participant's account may not exceed the lesser of 100% of compensation or \$42,000 per year.

⁴ If provided for by the plan. Under Treasury regulations, financial hardship is defined as "immediate and heavy financial need where funds are not reasonably available from other sources."

⁵ Except for more than 5% owners, distributions must begin by the later of April 1 of (a) the year following the year in which the participant reaches age 70½, or (b) the year following the year in which the participant retires.