Universal Simplified Employee Pension Plan
Employee Information Booklet

Questions and Answers

1. Q. *What is a Simplified Employee Pension (SEP) plan?*

   A. A SEP plan is a retirement income arrangement under which your Employer may contribute, generally in the form of discretionary contributions or retirement savings contributions, certain amounts to your own Traditional Individual Retirement Account or Traditional Individual Retirement Annuity (IRA).

   Your Employer will provide you with a copy of the *SEP Summary for Employees* containing participation requirements and a description of the basis upon which Employer contributions may be made to your IRA.

   All amounts contributed to your IRA by your Employer belong to you, even after you leave the employment of that Employer.

2. Q. *What are discretionary contributions?*

   A. Discretionary contributions are contributions which may be made by your Employer for you to your IRA. Whether or not your Employer makes a discretionary contribution is entirely up to your Employer. If a discretionary contribution is made under the SEP Plan, it must be divided among all the eligible Employees according to the allocation formula your Employer has selected.

3. Q. *What are fixed-percent-of-profits contributions?*

   A. Fixed-percent-of-profits contributions are a percentage of company profits which are made to your IRA if your Employer has profits in excess of a stated dollar amount.

4. Q. *How will contributions be allocated to my IRA?*

   A. Refer to the *SEP Summary for Employees* to see whether your Employer has selected the pro rata, flat dollar, or integrated formula.

   If your Employer has selected the pro rata formula, contributions on behalf of each eligible Employee will be the same percentage of compensation for all Employees.

   If your Employer has selected the flat dollar formula, the Employer Contribution will be allocated equally resulting in each Employee receiving the same dollar amount.

   If your Employer has selected the integrated formula, see Question 23.

   When calculating contributions to be made to the SEP Plan, an Employee's Compensation above $220,000 (2006) will not be included. (This $220,000 figure is increased by the IRS periodically based on changes in the cost of living.)

   The law prohibits your Employer from making contributions which discriminate in favor of highly compensated Employees.

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5. Q. *Who are eligible Employees?*

A. Eligible Employees are Employees who have satisfied the minimum age, service, and Compensation requirements set by your Employer as specified in the *SEP Summary for Employees*. An Employee who satisfies those eligibility requirements is entitled to participate in the SEP Plan. The participation requirements for the right to receive a discretionary contribution are the same as the participation requirements for the right to make Elective Deferrals under a salary deferral SEP plan.

Questions 6 through 10 apply only to "salary deferral" SEP plans. See the <u>SEP Summary for Employees</u> to determine what type of SEP plan your Employer has adopted.

6. Q. *What are Elective Deferrals?*

A. Elective Deferrals are contributions which may be made at your election, out of your salary or wages, by your Employer to your IRA. Although you agree to set aside or "defer" a portion of your salary or wages to your IRA, Elective Deferrals are considered to be contributions made by your Employer since your Employer pays your salary or wages. Elective Deferrals can be made on your behalf to your IRA only if your Employer has adopted a SEP plan with a salary deferral feature (a salary deferral SEP plan).

7. Q. *Why would I want to defer a portion of my salary as an Elective Deferral?*

A. Elective Deferrals are not includible in your income. For example, if your current salary is $50,000 per year and you elect to defer 10 percent of your salary to your IRA, for income tax purposes you are considered to have earned a salary of only $45,000 for the year. Thus, you will pay less in taxes and be able to put away a sizeable sum for your retirement if you decide to participate in a salary deferral SEP plan.

8. Q. *How much of my salary can I defer to my IRA under a salary deferral SEP plan?*

A. If you participate in a salary deferral SEP plan, you may defer up to $15,000 for 2006, $15,500 for 2007. After 2007, this limit is subject to cost-of-living adjustments. However, your Employer may set a limit on the percentage of your salary which you may defer, which might yield an amount less than this limit. See the *SEP Summary for Employees* for the percentage of salary limit that applies to you.

9. Q. *What are catch-up contributions under a salary deferral SEP plan?*

A. If you are age 50 before the close of the Plan Year, you may make additional Elective Deferrals under a salary deferral SEP plan. The additional amounts are $5,000 for 2006 and 2007. After 2007, this limit is subject to cost-of-living adjustments.

10. Q. *How do I make an election to defer salary under a salary deferral SEP plan?*

A. You make such an election if you are an "eligible" Employee *(see Question 5)* by completing and signing a *Salary Reduction Agreement* (which will be provided to you by your Employer) and delivering it to your Employer.

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11. Q. *How much may my Employer contribute to my IRA in any year?*

A. The sum of discretionary contributions plus Elective Deferrals for any year is limited to the lesser of $40,000 or 25 percent of your Compensation for that year ($44,000 for 2006, $45,000 for 2007). (This limitation may be increased by the IRS for changes in the cost of living.) The compensation used to determine this limit does not include any amount which is contributed by your Employer as contributions to your IRA under the SEP Plan. Remember, if your Employer has chosen a contribution formula, the SEP Plan does not require your Employer to maintain a particular level of discretionary contributions. It is possible that for a given year no discretionary contributions will be made on your behalf. However, if you were eligible to and did elect to make Elective Deferrals under the SEP Plan, then your Employer must make Elective Deferrals for you. *(See also Question 13.)*

12. Q. *How do I treat my Employer's SEP Plan contributions for my taxes?*

A. The amount your Employer contributes to the SEP Plan (as a discretionary contribution or Elective Deferrals) is excludible from your gross income (subject to the $40,000 or 25 percent of Compensation limitation mentioned above and the Elective Deferral limitation mentioned in Question 8) and is not includible as taxable wages on your Form W-2.

13. Q. *May I also contribute to my IRA if I am a Participant in a SEP plan?*

A. Yes. You may still contribute the lesser of the applicable limit or 100 percent of your compensation to an IRA. However, as a Participant in a SEP plan, you would be considered an active participant in an Employer-maintained retirement plan and therefore, you may or may not be able to deduct your Traditional IRA contribution, depending upon your modified adjusted gross income and which type of tax return you file (single individual, married filing jointly, or married filing separately). (You may also, however, be eligible to contribute to a Roth IRA.)

14. Q. *What if I don't want an IRA?*

A. Under the tax rules which apply to SEP plans, for an Employer to have a valid SEP plan, all eligible Employees must establish IRAs. Your Employer may require that you become a Participant in the SEP Plan and set up a IRA as a condition of employment. If one or more eligible Employees do not participate and the Employer attempts to maintain a SEP plan with the remaining Employees, there may be adverse tax consequences for both the Employer and the Employees.

15. Q. *Can I select the financial organization where I set up the IRA which is to receive the SEP Plan Contributions made on my behalf?*

A. Generally, you may select the financial organization where you set up the IRA which is to receive SEP Plan contributions made on your behalf.

16. Q. *Can I move funds from my IRA to another tax-deferred IRA?*

A. Yes. You can withdraw contributions from your IRA and, no more than 60 days after your receipt of the funds, place such funds into another IRA. This is called a "rollover" and may not be done without tax penalty more frequently than at one-year intervals. However, there are no restrictions on the number of times you may make "transfers" if you arrange to have such funds transferred directly between

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IRA trustees or custodians, so that you never have possession of the funds. NOTE: If your plan permits Elective Deferrals, refer to Section XI in the *Notice to Employees* at the end of this booklet for a description of certain transfer restrictions.

17. Q. *What happens if I withdraw my Employer's contributions from my IRA?*

    A. If you don't want to leave the Employer's discretionary contribution in your IRA, you may withdraw it at any time, but any amount withdrawn is includible in your income and will be taxed. Also, if you take withdrawals before you reach age 59½, and those withdrawals do not satisfy a penalty exception (e.g., due to disability), you may be subject to a 10 percent IRS penalty tax. NOTE: If your plan permits Elective Deferrals, refer to Section XI in the *Notice to Employees* at the end of this booklet for a description of additional withdrawal restrictions.

18. Q. *May I participate in a SEP plan even though I am covered by another plan?*

    A. Yes. You can participate in a SEP plan (other than a SEP plan which uses the IRS's model SEP plan document) even though you participate in another qualified retirement plan (such as a pension or profit sharing plan) of the same Employer. However, the combined contribution limits are subject to certain limitations described in Section 415 of the Internal Revenue Code. Also, if you work for several Employers, you may be covered by the SEP Plan of one Employer and a SEP, pension, or profit sharing plan of another Employer.

19. Q. *What happens if too large of a contribution is made to my IRA in one year?*

    A. Any contribution that exceeds the yearly limitations may be withdrawn without an IRS penalty by the due date (plus extensions) for filing your tax return (normally April 15th), but is includible in your gross income. Excess contributions left in your IRA after that time are subject to a six percent penalty tax per year. Withdrawals of those contributions may be taxed as early distributions. NOTE: Refer to Sections II, VII, and VIII in the *Notice to Employees* at the end of this booklet for information on how to handle excesses made to a salary deferral SEP plan.

20. Q. *Do I need to file any additional forms with the IRS because I participate in a SEP plan?*

    A. No.

21. Q. *Is my Employer required to provide me with information about IRAs and the SEP Plan?*

    A. Yes. Your Employer must provide you with a notice that a SEP Plan has been established (the *SEP Summary for Employees*), along with this *Employee Information Booklet*, and give you a statement each year showing any contribution to your IRA.

22. Q. *Is the financial organization where I establish my IRA also required to provide me with information?*

    A. Yes. It must provide you with a disclosure statement which contains the following items of information in plain, nontechnical language:

    (1) the statutory requirements which relate to your IRA;

    (2) the tax consequences which follow the exercise of various options and what those options are;

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(3) eligibility rules and rules on the deductibility and nondeductibility of retirement savings;

(4) the circumstances and procedures under which you may revoke your IRA, including the name, address, and telephone number of the person designated to receive notice of revocation (this explanation must be prominently displayed at the beginning of the disclosure statement);

(5) explanations of when penalties may be assessed against you because of specified prohibited or penalized activities concerning your IRA; and

(6) financial disclosure information which:

   (a) either projects the growth in value of your IRA under various contribution and retirement schedules, or describes the method of computing and allocating annual earnings and charges which may be assessed;

   (b) describes whether, and for what period the growth projections for the plan are guaranteed, or a statement of the earnings rate and terms on which the projection is based;

   (c) states the sales commission to be charged in each year expressed as a percentage of $1,000 (basis points); and

   (d) states the proportional amount of any nondeductible life insurance which may be a feature of your IRA.

For a more complete explanation of the disclosure requirements, see *Publication 590, Individual Retirement Arrangements (IRAs)*, available at most IRS offices.

In addition to this disclosure statement, the financial organization is required to provide you with a financial statement each year. It may be necessary to retain and refer to statements for more than one year in order to evaluate the investment performance of the IRA, and so you will know how to report IRA distributions for tax purposes.

23. Q. *My Employer has indicated in the SEP Summary for Employees that contributions will be allocated using the "integrated formula." What does this mean and how does it affect me?*

A. If the Plan uses the integrated formula, the Employer contribution for Employees who have Compensation in excess of the integration level will be a higher percentage than the contribution made for Employees whose Compensation is below the integration level. The integration level is indicated on the *SEP Summary for Employees*.

Allocating contributions under the integrated formula involves a four-step process, which is explained below.

STEP 1: An amount is allocated for each eligible Employee not in excess of three percent of the Employee's total Compensation.

STEP 2: Eligible Employees with Compensation greater than the integration level receive an allocation not in excess of three percent of their Compensation above the integration level.

STEP 3: Any Employer discretionary contribution remaining after the allocation in Step 2 is allocated pro rata to each eligible Employee based on the sum of the Employee's total Compensation plus his or her Compensation above the integration level. The percentage allocated in this step cannot be more than a certain amount, which varies depending upon the integration level selected, as described below:

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If the integration level is:	The maximum percentage which can be allocated in Step 3 is:
Taxable Wage Base (TWB)	2.7%
Not more than 20% of TWB	2.7%
More than 20% of TWB but not more than 80% of TWB	1.3%
More than 80% of TWB	2.4%

STEP 4: Any Employer contribution remaining after the allocation in Step 3 is allocated pro rata to eligible Employees based on their total Compensation.

EXAMPLE: The Big Apple Corporation maintains a SEP plan which uses the integrated allocation formula. The integration level is the taxable wage base ($94,200 for 2006). For 2006, the company will make a contribution of $17,800. Listed below are the qualifying participants of Big Apple Corporation and their Compensation. The chart below shows how the Employer Contribution will be allocated to the IRAs of eligible Employees.

EMPLOYEE	COMPENSATION	Step 1	Step 2	Step 3	Step 4	Total Allocation	Allocation as a % of Comp.
SUE	$100,000	$3,000	$174	$2,857	$4,114	$10,145	10.14%
SAL	58,000	1,740	0	1,566	2,386	5,692	9.8%
SAM	20,000	600	0	540	823	1,963	9.8%
TOTAL	$178,000	$5,340	$174	$4,963	$7,323	$17,800	
REMAINING TO BE ALLOCATED	$17,800	$12,460	$12,286	$7,323			

NOTICE TO EMPLOYEES

The following information explains what a simplified employee pension plan ("SEP") is, how contributions are made, and how to treat these contributions for tax purposes. For more specific information, refer to the SEP agreement itself and the accompanying "Notice to Adopting Employer."

I. Simplified Employee Pension – Defined

A SEP is a retirement income arrangement. In this "elective" SEP, you may choose to defer Compensation to your own Individual Retirement Account or Annuity ("IRA"). You may base these "Elective Deferrals" either on a salary reduction arrangement or on bonuses that, at your election, may be contributed to an IRA or received in cash. This type of elective SEP is available only to an Employer with 25 or fewer eligible Employees.

Your employer must provide you with a copy of the SEP agreement containing eligibility requirements and a description of the basis upon which contributions may be made.

All amounts contributed to your IRA belong to you, even after you quit working for your employer.

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II. Elective Deferrals – May Be Disallowed

You are not required to make Elective Deferrals to this SEP plan. However, if more than half of your employer's eligible employees choose not to make elective deferrals in a particular year, then no employee may participate in your employer's elective SEP for that year. If you make Elective Deferrals during a year in which this happens, then your deferrals for that year will be "disallowed," and the deferrals will be considered ordinary IRA contributions (which may be excess IRA contributions) rather than SEP contributions.

"Disallowed deferrals" and allocable income may be withdrawn, without penalty, until April 15 following the calendar year in which you are notified of the "disallowed deferrals." Amounts left in the IRA after that date will be subject to the same penalties discussed in Section VII below applicable to excess SEP contributions.

III. Elective Deferrals – Annual Limitation

The maximum amount that you may defer to this SEP for any calendar year is limited to the lesser of 25 percent of Compensation (determined without including the SEP contribution) or the dollar limit under section 402(g) of the Internal Revenue Code. The annual Elective Deferral limit under section 402(g) of the Internal Revenue Code may not exceed $14,000 for 2005 and $15,000 for 2006, and $15,500 for 2007. These amounts are indexed for cost of living adjustments and may be adjusted in increments of $500 beginning after 2006.

If you are age 50 by the end of the year you may make additional catch-up deferrals under this salary deferral SEP. The amounts are as follows: 2005 = $4,000; 2006 and 2007 = $5,000 plus potential cost-of-living adjustments after 2007.

The 25 percent limit may be reduced if your employer also maintains a SEP to which non-elective contributions are made for a plan year. In that case, total contributions on your behalf to all such SEPs and qualified plans may not exceed the lesser of $40,000 (subject to cost of living adjustments) or 25 percent of your Compensation. If these limits are exceeded, the amount you may elect to contribute to this SEP for the year will be correspondingly reduced.

The dollar limit under Code section 402(g) is an overall limit on the maximum amount that you may defer in each calendar year to all elective SEPs and cash or deferred arrangements under Code sections 401(k), 403(b), or 408(p), regardless of how many employers you may have worked for during the year.

The section 402(g) limit is indexed according to the cost of living.

If you are a highly compensated Employee, there may be a further limit on the amount that you may contribute to a SEP for a particular year. This limit is calculated by your Employer and is known as the "deferral percentage limitation." This deferral percentage limitation is based on a mathematical formula that limits the percentage of pay that highly compensated employees may elect to defer to a SEP. As discussed below, your Employer will notify each highly compensated Employee who has exceeded the deferral percentage limitation.

IV. Elective Deferrals – Tax Treatment

The amount that you may elect to contribute to your SEP is excludible from gross income, subject to the limitation discussed above, and is not includible as taxable wages on IRS Form W-2. However, these amounts are subject to FICA and FUTA taxes.

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V. Additional Top-Heavy Contributions

If you are not a "key Employee," your Employer must make an additional contribution to your IRA for a year in which the SEP is considered "top-heavy." (Your employer will be able to tell you whether you are a key Employee.) This additional contribution will not exceed three percent of your Compensation. It may be less if your Employer has already made a contribution to your account, and for certain other reasons.

VI. Elective Deferrals – Excess Amounts Contributed

There are three different situations in which impermissible excess amounts arise under the SEP plan.

The first way is when "excess elective deferrals" (i.e., amounts in excess of the section 402(g) limit) are made. You are responsible for calculating whether you have exceeded the section 402(g) limit in the calendar year. For 2007, the section 402(g) limit for contributions made to a Salary Deferral SEP is $15,500.

The second way is when "excess SEP contributions" (i.e., amounts in excess of the deferral percentage limitation referred to above) are made by highly compensated Employees. The Employer is responsible for determining whether such an Employee has made excess contributions.

The third way is when more than half of an Employer's eligible Employees choose not to make elective deferrals for a plan year. In that case, any Elective Deferrals made by any Employees for that year are considered "disallowed deferrals," as discussed above. Your Employer is also responsible for determining whether deferrals must be disallowed on this basis.

Excess elective deferrals are calculated on the basis of the calendar year. Excess SEP contributions and disallowed deferrals, however, are calculated on the basis of the SEP plan year, which may or may not be a calendar year.

VII. Excess Elective Deferrals – How To Avoid Adverse Tax Consequences

Excess Elective Deferrals are includible in your gross income in the calendar year of deferral. Income on the excess Elective Deferrals is includible in the year of withdrawal from the IRA. You should withdraw excess Elective Deferrals under this SEP, and any allocable income, from your IRA by April 15 following the year to which the deferrals relate. These amounts may not be transferred or rolled over tax-free to another IRA.

If you fail to withdraw excess Elective Deferrals, and any allocable income, by April 15, the excess Elective Deferrals will be subject to the IRA contribution limitations of Code sections 219 and 408 and thus may be considered an excess contribution to your IRA. Such excess deferrals may by subject to a six percent excise tax for each year they remain in the IRA.

Income on excess Elective Deferrals is includible in your gross income in the year you withdraw it from your IRA and must be withdrawn by April 15 following the calendar year to which the deferrals relate. Income withdrawn from the IRA after that date may be subject to a ten percent tax on early distributions if you are not age 59½.

If you have both excess Elective Deferrals and excess SEP contributions (as described below), the amount of excess Elective Deferrals that you withdraw by April 15 will reduce any excess SEP contributions that must be withdrawn for the corresponding plan year.

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VIII. Excess SEP Contributions – How To Avoid Adverse Tax Consequences

If you are a "highly compensated employee," your Employer is responsible for notifying you if you have made any excess SEP contributions for a particular plan year. This notification should tell you the amount of the excess SEP contributions, the calendar year in which you must include these contributions in income, and that the contributions may be subject to penalties if you do not withdraw them from your IRA within the applicable time period.

Your Employer should notify you of the excess SEP contributions within two and one half months of the end of the plan year. Generally you must include the excess SEP contributions in income for the calendar year in which the original deferrals were made. This may require you to file an amended individual income tax return. However, an excess SEP contribution of less than $100 (not including earnings) is includible in income in the calendar year of notification. Income on these excess contributions is includible in your gross income when you withdraw it from your IRA.

You are responsible for withdrawing these excess SEP contributions (and earnings) from your IRA. You may withdraw these amounts, without penalty, until April 15 following the calendar year in which you were notified by your Employer of the excess SEP contributions.

If you fail to withdraw the excess SEP contributions by April 15 following the calendar year of notification, the excess SEP contributions will be subject to the IRA contribution limitations of Code sections 219 and 408 and thus may be considered an excess contribution to your IRA. Thus, such excess SEP contributions may be subject to a six percent excise tax for each year they remain in your IRA.

If you do not withdraw the income on these excess SEP contributions by April 15 following the calendar year of notification by your Employer, the income may be subject to a ten percent tax on early distributions if you are not age 59½ when you withdraw it.

IX. Income Allocable To Excess Amounts

The rules for determining and allocating income to excess Elective Deferrals, excess SEP contributions, and disallowed deferrals are the same as those governing regular IRA contributions. The trustee or custodian of your IRA will inform you of the income allocable to excess amounts.

X. Availability Of IRA Contribution Deduction To SEP Participants

In addition to any SEP amounts, you may contribute the lesser of the applicable limit or 100 percent of compensation to an IRA. However, the amount that you may deduct is subject to various limitations. See Publication 590, *Individual Retirement Arrangements*, for more specific information.

XI. Rollover Or Transfer To Another IRA

You may not withdraw or transfer from your IRA any SEP contributions (or income on these contributions) attributable to Elective Deferrals made during the plan year until two and one half months after the end of the plan year or, if sooner, when your Employer notifies you that the deferral percentage limitation test (described above) has been completed for that year. In general, any transfer or distribution made before this time will be includible in your gross income and may also be subject to a ten percent penalty tax for early withdrawal. You may, however, remove excess Elective Deferrals from your IRA before this time, but you may not roll over or transfer these amounts to another IRA.

After the restriction described in the preceding paragraph no longer applies, and with respect to contributions for a previous plan year, you may withdraw, or receive, funds from your IRA, and no more than 60 days later, place such funds in another IRA. This is called a "rollover" and may not be done without penalty more frequently than at one-year intervals. However, there are no restrictions on the number of times that you may make "transfers" if you arrange to have such funds transferred between the trustees so that you never have possession of the funds.

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You may not, however, roll over or transfer excess Elective Deferrals, excess SEP contributions, or disallowed deferrals from your IRA to another IRA. These excess amounts may be reduced only by a distribution to you.

XII. Filing Requirements

You do not need to file any additional forms with the IRS because of participation in the SEP.

XIII. Employer To Provide Information On IRAs And The SEP Agreement

Your Employer must provide you with a copy of the executed SEP agreement, this Notice to Employees, the form you should use to defer amounts to the SEP, the notice of excess SEP contributions or disallowed deferrals (if applicable) and a statement for each taxable year showing any contribution to your IRA. Your Employer must also notify you, if you are a highly compensated Employee, when the deferral percentage limitation test has been completed for a plan year.

XIV. Financial Institution Where IRA Is Established To Provide Information

The financial institution must provide you with a disclosure statement that contains the following items of information in plain nontechnical language:

1. The statutory requirements that relate to the IRA;
2. The tax consequences that follow the exercise of various options and what those options are;
3. Participation eligibility rules, and rules on the deductibility and nondeductibility of retirement savings;
4. The circumstances and procedures under which you may revoke the IRA, including the name, address, and telephone number of the person designated to receive notice of revocation (this explanation must be prominently displayed at the beginning of the disclosure statement);
5. Explanations of when penalties may be assessed against you because of specified prohibited or penalized activities concerning the IRA; and
6. Financial disclosure information which:
   a) Either projects value growth rates of the IRA under various contribution and retirement schedules, or describes the method of computing and allocating annual earnings and charges which may be assessed;
   b) Describes whether, and for what period, the growth projections for the plan are guaranteed, or a statement of earnings rate and terms on which these projections are based; and
   c) States the sales commission to be charged in each year expressed as a percentage of $1,000.

See Publication 590, *Individual Retirement Arrangements*, which is available at most IRS offices, for a more complete explanation of the disclosure requirements.

In addition to the disclosure statement, the financial institution is required to provide you with a financial statement each year. It may be necessary to retain and refer to statements for more than one year in order to evaluate the investment performance of your IRA and in order that you will know how to report IRA distributions for tax purposes.

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