



Retirement Plan Specialists, Inc.

What's Happening Now!
Planning Opportunities
Designs in Action –Case Studies

Pension Update

What's happening now!



DB/K Plans

- Effective 1/1/10
- Combines both DB & 401k into 1 plan document
- File 1 Form 5500
- Extreme limitations to the flexibility of contributions & benefits



EFAST2

- Electronic filing of all 5500s (except EZ) effective 1/1/10
- Requires the plan sponsors to obtain electronic signature credentials
- Plan Sponsor must have an active email address



Document Restatements

- DC plans 6-year cycle ended 4/30/10
- DB plans 6-year cycle began 5/1/10
- Mandated by IRS
- Prototype & VS plans
- IDP plans on a 5-year cycle based on last digit of EIN



Roth IRAs

- Conversions can start 1/1/10
- Generally, must be done outside of the plan
- Cannot roll a Roth IRA into a qualified plan
- Our document can be amended to allow for them thru the deemed IRA provisions
- Working on Capitol Hill to get this changed



402(f) Notices

- One from distributions from Roth and one from non-Roth accounts
- Automatic rollover rules
- Non-spousal beneficiaries must be provided for years after 12/31/09
- Additional Requirements

Pension Update

What's on the Horizon



Retirement Security Initiatives

- Expand Opportunities for Automatic Enrollment
- Make it easier for families to save a portion or all of their tax refund
- Enable workers to convert their unused vacation or other similar leave into additional retirement savings
- Help workers and their ERs better understand the available options for tax-favored retirement savings through clear and easy to understand language



Major Changes Forthcoming

- New administration looking to make changes
- Fee Disclosure still a major issue
- Congress/administration considering options to overhaul 401(k) system
- Guaranteed retirement accounts (proposal)
 - Mandatory participation by all EEs
 - \$600 refundable tax credit from U.S. government
 - EEs required to invest 5% into a guaranteed account administered by SSA



Major Changes Forthcoming

- Invest in government bonds paying 3% a year
- Funds can not be accessed before retirement, death or disability.

Planning Opportunities

Issues to Discuss with your Clients



Safe Harbor Plans – Yes or No for 2010?

- **In lean times, employers may want to suspend safe harbor contributions**
- **Biggest concern will be top-heavy issues, so make sure your Key Employees do NOT defer!!!**
- **See if amending the plan to change eligibility or allocations would help reduce costs**
- **Good time to revisit the goals of your plan sponsors!**



Employee Education – More than investing

- **Expand your employee education to include debt reduction and resist living beyond their means**
 - **Credit ratings and what they mean**
 - **Identity theft and how to avoid it**
- **Include in your training other aspects of the employees life. Incorporate what the employer already offers and expand, for example:**
 - **Life Insurance**
 - **Disability Insurance**
 - **Long Term Care Insurance**
 - **Health Insurance**



Limits for 2010 same as 2009

- Salary Deferral - \$16,500
- Catch-up - \$5,500 for those over 50 years of age
- DC Limit - \$49,000 annual additions
- DB Limit - \$16,250 per month
- Compensation Limit - \$245,000
- Highly Compensated - \$110,000
- Taxable Wage Base - \$106,800



Designs in Action

Case Studies



SEPS are not always a GOOD idea!

- It takes \$196,000 of W-2 compensation to get to \$49,000 in a SEP (25% of compensation)
- It takes \$130,000 of W-2 compensation to get to \$49,000 in a 401(k) (\$16,500 plus 25% of comp)
- But MUCH lower W-2 compensations to get to \$49,000 in a CB/DC Combo arrangement
 - Age 50, \$35,000 - Age 55, \$33,000
 - \$16,500 plus 6% of compensation plus CB funding!!!
 - No compensation = No required contribution!
 - Need to be careful when an ER is a sole proprietor



One Person Designs

Case Studies:

- 1) Retired military officer who is now a medical consultant with government contracts in the tens of thousands but does not need or want the income now.
- 2) The business consultant who worries about income on a year to year basis but wants to save and an ongoing commitment is the issue.

Case One: Combo Plan with 401(k)

401(k)									
Classes	Age	Comp	Target CB Contribution	401(k) Profit Sharing	Safe Harbor Nonelective	Deferrals	K Plan Totals	Combine Totals	
VL	A	53	85,000	85,000	5,100	0	22,000	27,100	112,100
TL	B	53	24,000	24,000	1,440	0	22,000	23,440	47,440
Er Totals			109,000	109,000	6,540	0	44,000	50,540	159,540
			% of Comp	6%			46%	146%	

- Cash Balance Plan Target Formulas
- `100% Owner max to 415 if applicable
- `3% to rank and file and 0% to Spouse

- 401(k) Plan
- `6% to Owner and spouse plus max deferrals
- `?% to NHC when hired (to be determined)
- `3% safe harbor nonelective to NHCE, later

Case 2: Business Consultant

		Age	Comp	Target CB Contribution	Deductible CB Contribution	Profit Sharing Contribution	Non-Elective 3% Safe Harbor	Salary Deferrals including catch-up	Total Contributions
2009	Good Year								
JM	A	54	245,000	245,000	170,550	14,700	0	22,000	207,250
Subtotal			245,000	245,000	170,550	14,700	0	22,000	207,250
				% of comp	70%	6%	0%	9%	85%
2010	Bad Year								
JM	A	55	35,000	35,000	35,000	2,100	0	0	37,100
Subtotal			35,000	35,000	35,000	2,100	0	0	37,100
2 yr Er Totals			\$280,000	\$280,000	\$205,550	\$16,800	\$0	22,000	\$244,350
		2 year		% of comp	73%	6%	0%	8%	87%

•Cash Balance Plan

`100% to Class A and C limited to 415

`3% to ees when hired

NRA 62/5

•401(k) Plan

`Max Class including deferrals

`3% safe harbor to all



One HCE Designs

Case Studies:

- 1) Doc with two employees and a spouse who is the office manager and lots of income. His losses in his 401(k) during the recession were massive and now he wants to quickly make them up.
- 2) The dentist who has been contributing to his integrated 401(k) plan for himself and his employees for years but wants to put more away for himself.

Case 3: Doctor, Spouse with EEs

	Class	Age	Comp	CB Contribution	401(k) ER Contribution	Safe Harbor Nonelective	Deferrals	K Totals	Both Totals
Doctor	A	39	245,000	125,000	2,450	0	15,500	17,950	142,950
Spouse	B	39	75,000	26,250	0	0	0	0	26,250
Subtotal			320,000	151,250	2,450	0	15,500	17,950	169,200
EE1	C	23	30,000	900	600	900	0	1,500	2,400
EE2	C	37	60,000	1,800	1,200	1,800	0	3,000	4,800
Subtotal			90,000	2,700	1,800	2,700	0	4,500	7,200
Er Totals			<u>\$410,000</u>	<u>\$153,950</u>	<u>\$4,250</u>	<u>\$2,700</u>	<u>\$15,500</u>	<u>\$22,450</u>	<u>\$176,400</u>
		% of Comp		37.55%	Total ER 1.04%	\$6,950 1.70%		Owners %	95.92%

- Cash Balance Plan
- `MAX to Owner to 415
- `35% to Class B
- `3% to Class C

- 401(k) Plan
- `1% to Owner
- `0% to Class B
- `2% to Class C
- `3% Safe Harbor non elective to NHCEs

Case 4: One HCE Design-Integrated

	<u>Class</u>	<u>Age</u>	<u>Comp</u>	<u>PS Contribution</u>	<u>Safe Harbor</u>	<u>Deferrals</u>	<u>Totals</u>
Dr. S	A	68	245,000	25,150	7,350	22,000	54,500
Subtotal			245,000	25,150	7,350	22,000	54,500
PA1	B	58	70,000	4,665	2,100	0	6,765
PA2	B	48	70,000	4,665	2,100	0	6,765
Subtotal			140,000	9,330	4,200	0	13,530
Er Totals			\$385,000	\$34,480	\$11,550	\$22,000	\$68,030
					Total ER		
			% of Comp	8.96%	3.00%	Owners %	80.11%

3% Safe Harbor plus 6.67% to Rank and File (integrated basis)
 Dr. S's PS Contribution limited by 415

One HCE Design- Combo Design

	Class	Age	Comp	CB Contribution	401(k) ER Contribution	Deferrals	Totals
Dr. S	A	68	245,000	120,000	0	5,500	125,500
Subtotal			245,000	120,000	0	5,500	125,500
PA1	B	58	70,000	2,100	8,400	0	10,500
PA2	B	48	70,000	2,100	8,400	0	10,500
Subtotal			140,000	4,200	16,800	0	21,000
Er Totals			\$385,000	\$124,200	\$16,800	\$5,500	\$146,500
			% of Comp	32.26%	Total ER 4.36%	Owners %	85.67%

•Cash Balance Plan

- `100% to Class A limited to 415/or passing test
- `3% to Class B

•401(k) Plan

- `0% to Class A
- `Catch up salary deferrals
- `12% to Class B



Multiple HCE Designs

Case Studies:

1) Manufacturing plant with an existing Safe Harbor Plan, high turnover in employees but large year end profits. The owners, parents and two children want more in their accounts and that of two the managers, if possible. (in yellow)

Case 5: Owner/Managers

	Class	Age	Comp	Target CB Contribution	Deductible CB Contribution	401(k) ER Contribution	Deferrals	Non elective	K Plan Totals	Total Contributions	
Owner	A	58	245,000	200,000	199,088	25,150	22,000	7,350	54,500	253,588	
Wife	B	57	245,000	182,000	180,964	25,150	22,000	7,350	54,500	235,464	
Son 1	C	25	52,000	2,750	1,476	0	0	1,560	1,560	3,036	
Son 2	C	28	52,000	2,750	1,528	0	0	1,560	1,560	3,088	
Subtotal			594,000	387,500	383,056	50,300	44,000	17,820	112,120	495,176	
EE1	F	53	20,800	624	538	624	0	624	1,248	1,786	
EE2	F	49	21,320	640	516	640	0	640	1,280	1,796	
EE3	F	27	30,160	905	503	905	0	905	1,810	2,313	
EE4	F	65	25,480	764	761	764	0	764	1,528	2,289	
EE5	F	60	22,880	686	683	686	0	686	1,372	2,055	
EE6	E	28	45,000	4,500	2,544	5,400	0	1,350	6,750	9,294	
EE7	F	38	20,800	624	419	624	0	624	1,248	1,667	
EE8	E	56	36,400	3,640	3,560	4,368	0	1,092	5,460	9,020	
EE9	F	56	22,880	686	622	686	0	686	1,372	1,994	
EE10	F	47	29,120	874	682	874	0	874	1,748	2,430	
Subtotal			274,840	13,943	10,828	15,571	0	8,245	23,816	34,644	
Er Totals			\$868,840	\$401,443	\$393,884	\$65,871	\$44,000	\$26,065	\$135,936	\$529,820	
					Total ER						
		% of Comp		46.20%	45.33%	7.58%	Owners %		82.48%	93.46%	

What to be aware of:

Designs in Action



More Design Principles of DB/DC Plans

- **Owners and partners of different ages may require DB/DC combination designs to meet different objectives**
- **When using a general test design, rarely hurts to cover all employees in the arrangement. Helps with nondiscrimination testing, improves the deductible limit, and helps reduce the variability of year-to-year results.**
- **Caution: May be difficult to amend plan under 1.401(a)(4)-11(g) – AFTAP less than 60% may be a problem**



More Design Principles of DB/DC Plans

- For younger HCEs, it generally makes sense to maximize the defined contribution arrangement, as it is impossible to make up for lost DC contributions. In a defined benefit plan (assuming at least 10 years of participation), a participant can make up for years where the DB was not maximized
- Question: Do you “burn” your DB 415 limits for a younger HCE? (Need guidance on MASD (multiple annuity starting date) rule for 415)



Questions for DB/DC Plan Prospects

- **Any prior DB plan accruals?**
- **Have any members of the controlled or affiliated service group maintained a defined benefit plan in the past?**
- **Continue to maintain existing profit sharing or 401(k) plan?**
- **DB Plan to be covered by PBGC?**



Questions for DB/DC Plan Prospects

- **Goal in establishing a defined benefit plan?**
- **Principals who are 10-15 years from retirement
Younger principals' goals?**
- **Maximizing current take-home pay or savings?**
- **Attract or retain key personnel?**
- **Any industry-standard plan types or provisions?**
- **Can the business maintain the plan(s) for the long haul?**
- **What about the impact of changes in the market?**



Next Step

- Complete the Request for Information on our website. We will provide you a side by side comparison of how a combo design can work for your client!
- Contact RPS, Inc. at 407-365-3490 or 888-376-7222, or visit us at www.wehelppeopleretire.com