

# NH HICKS

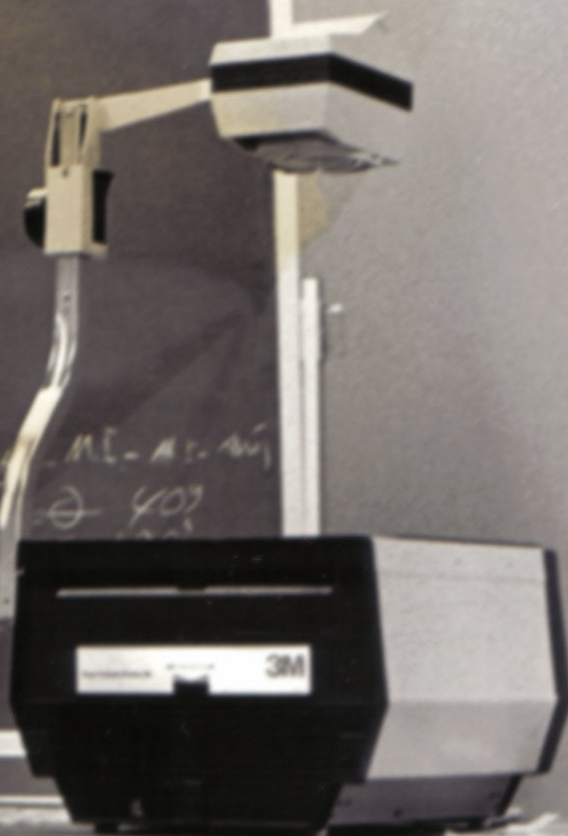
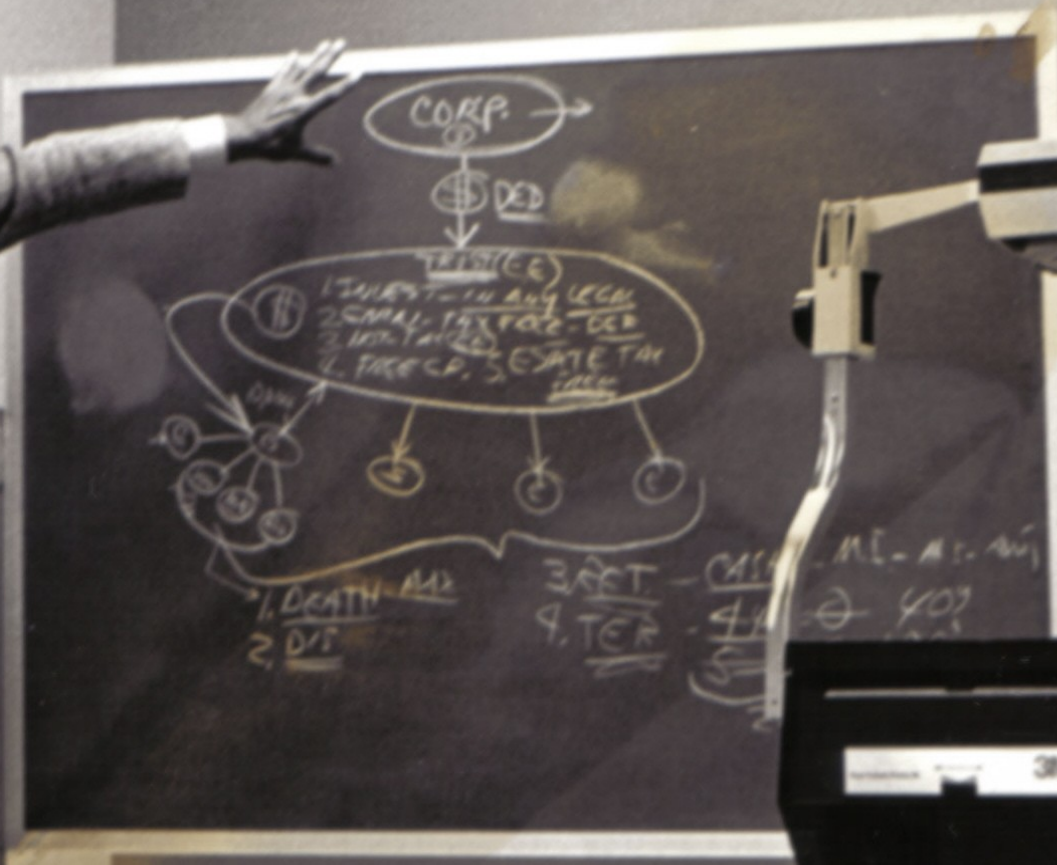
Legal and Pension Consultants

**Qualified Plans in Today's Environment**

**Defined Benefit Plans**

**2018**

Experience Counts



# *Design Highlights*

- Eligibility – 30% class exclusion
- Include Spouse
- Defined Benefit 40-60-5 Rule
- General Assumptions
- Defined Benefit Contributions
- One Person DB Plan
- Add Uni(k)
- Combination Plans
- Plan Comparisons
- Amendments Prior to Benefit Accruals
- Cash Balance Plans
- PBGC
- DB restatements

## ***DEFINED BENEFIT***

## ***DEFINED CONTRIBUTION***

### **TRUST**

- Deposits not taxed to employee
- Tax Deferred Growth
- Protected from creditors



TRUST

## **ELIGIBILITY**

- Age 21
- 1 Year
- 1000 hours a year
- Union Employees
- Non Resident Aliens
- 30% NHC job class

## **ENTRY DATES**

## **VESTING**

# *Distributions*

## **100% VESTED UPON**

- Death
- Retirement

## **TERMINATIONS**

## **LOANS**



TRUST

# Defined Benefit Plan

## General Assumptions

Age 48	NRA 62	Life Exp. 85
Comp. \$110,000	Fund \$1,475,000	Pay \$110,000
Requires \$129,642 contribution		

- Interest rates
- Retirement age
- Investment selection
- Funding range
- Funding flexibility
- Overfunding
- Unable to fund
- DB Chart

# Defined Benefit Contributions

Ages/Comp	30,000	50,000	70,000	90,000	110,000	130,000	150,000	170,000	190,000
32	43,209	69,811	75,049	75,049	75,049	75,049	75,049	75,049	75,049
34	47,403	77,041	82,820	82,820	82,820	82,820	82,820	82,820	82,820
36	52,003	85,030	91,406	91,406	91,406	91,406	91,406	91,406	91,406
38	57,050	93,853	100,893	100,893	100,893	100,893	100,893	100,893	100,893
40	62,586	103,599	111,368	111,368	111,368	111,368	111,368	111,368	111,368
42	69,555	114,368	122,945	122,945	122,945	122,945	122,945	122,945	122,945
44	78,120	126,286	135,757	135,757	135,757	135,757	135,757	135,757	135,757
46	87,240	139,474	149,933	149,933	149,933	149,933	149,933	149,933	149,933
48	96,946	154,075	165,630	165,630	165,630	165,630	165,630	165,630	165,630
50	107,272	170,241	183,010	183,010	183,010	183,010	183,010	183,010	183,010
52	118,256	188,147	202,259	202,259	202,259	202,259	202,259	202,259	202,259
54	129,933	208,057	223,662	223,662	223,662	223,662	223,662	223,662	223,662
56	142,345	230,172	247,435	247,435	247,435	247,435	247,435	247,435	247,435
58	146,753	244,588	254,750	254,750	254,750	254,750	254,750	254,750	254,750
60	140,480	234,133	251,693	251,693	251,693	251,693	251,693	251,693	251,693
62	133,920	223,200	268,298	268,298	268,298	268,298	268,298	268,298	<b>268,298</b>
64	127,046	211,745	285,952	295,575	295,575	295,575	295,575	295,575	295,575

- Contributions based on NRA 62 and 5 Years of Participation.
- Comp is W-2 wages, or self-employment income less self-employment tax deduction and pension deduction for the self employed and his/her share of any employee cost.
- Contribution amounts may be less when using a DB/DC Combo design.



# *Defined Benefit Plan*

	Age	Comp	DB
Orville	63	\$275,000	\$212,000
Wilbur	25	50,000	4,000
Richthofen	28	50,000	6,000
Amelia	40	50,000	14,000
Doolittle	45	50,000	22,000

# DB Combination Plan

**40 – 60 – 5  
RULE**

## DB Floor Offset

	Age	Comp	DB	DB	7.5% PS	401(k)
Orville	63	275,000	\$212,000	\$220,000	\$20,625	\$24,500
Wilbur	25	50,000	4,000	-0-	3,750	---
Richthofen	28	50,000	6,000	-0-	3,750	---
Amelia	40	50,000	14,000	-0-	3,750	---
Doolittle	45	50,000	22,000	-0-	3,750	---

\$44,250 more for owner, while \$31,000 less for employees =  
**\$75,250 DIFFERENCE**

### Requires:

- Minimum employee contribution of 5–6%
- Good for PBGC covered plans

# *DB Plan Comparison*

- DB + 401(k)
  - Maximizes benefits for everyone
- Floor Offset
  - Good for PBGC covered plans
- Super Combo
  - Good non-PBGC covered plans
- Carve out
  - Good for 2+ owners and 3 or less employees
- Cash balance
  - Contributions as % of pay or flat \$ amount

# Plan Comparisons

	25% SEP
Owner 57 \$100,000	\$25,000
Spouse 57 \$30,000	\$7,500
Jack 30 \$50,000	\$12,500
Jill 25 \$50,000	\$12,500
ER Cont EE Cont ER %	\$32,500 \$25,000 57%

# Plan Comparisons

	25% SEP	3% Match SIMPLE
Owner <sup>57</sup> \$100,000	\$25,000	\$3,000 +15,500
Spouse <sup>57</sup> \$30,000	\$7,500	\$900 +15,500
Jack <sup>30</sup> \$50,000	\$12,500	\$1,500 +12,500
Jill <sup>25</sup> \$50,000	\$12,500	\$1,500 +12,500
ER Cont	\$32,500	\$34,900
EE Cont	\$25,000	\$3,000
ER %	57%	92%

# Plan Comparisons

	25% SEP	3% Match SIMPLE	401(k) PS
Owner <sup>57</sup> \$100,000	\$25,000	\$18,500	\$36,000 +24,500
Spouse <sup>57</sup> \$30,000	\$7,500	\$16,400	\$12,000 +24,500
Jack <sup>30</sup> \$50,000	\$12,500	\$1,500 +12,500	\$2,500 +18,500
Jill <sup>25</sup> \$50,000	\$12,500	\$1,500 +12,500	\$2,500 +18,500
ER Cont	\$32,500	\$34,900	\$97,000
EE Cont	\$25,000	\$3,000	\$5,000
ER %	57%	92%	95%

# Plan Comparisons

	25% SEP	3% Match SIMPLE	401(k) PS	DB
Owner <sup>57</sup> \$100,000	\$25,000	\$18,500	\$60,500	\$256,634
Spouse <sup>57</sup> \$30,000	\$7,500	\$16,400	\$36,500	\$80,514
Jack <sup>30</sup> \$50,000	\$12,500	\$1,500 +12,500	\$2,500 +18,500	\$27,566
Jill <sup>25</sup> \$50,000	\$12,500	\$1,500 +12,500	\$2,500 +18,500	\$18,913
ER Cont	\$32,500	\$34,900	\$97,000	\$337,114
EE Cont	\$25,000	\$3,000	\$5,000	\$46,479
ER %	57%	92%	95%	88%

# Plan Comparisons

	25% SEP	3% Match SIMPLE	401(k) PS	DB	DB Combo
Owner <sup>57</sup> \$100,000	\$25,000	\$18,500	\$60,500	\$256,634	\$260,277 +24,500
Spouse <sup>57</sup> \$30,000	\$7,500	\$16,400	\$36,500	\$80,514	\$81,823 +24,500
Jack <sup>30</sup> \$50,000	\$12,500	\$1,500 +12,500	\$2,500 +18,500	\$27,566	\$5,550 +18,500
Jill <sup>25</sup> \$50,000	\$12,500	\$1,500 +12,500	\$2,500 +18,500	\$18,913	\$5,550 +18,500
ER Cont	\$32,500	\$34,900	\$97,000	\$337,114	\$391,100
EE Cont	\$25,000	\$3,000	\$5,000	\$46,479	\$11,100
ER %	57%	92%	95%	88%	97%



# *Cash Balance Plans*

- A DB Plan that looks like a DC Plan.
- Key Features: Individual Accounts, Annual Employer Contribution, Interest Credit, Portable Accounts & Actuary.
- Disadvantages
- Client's Commitment:
  - Annual Contributions
  - Vesting 100% after 3 service years

# PBGC

- The Pension Benefit Guaranty Corporation was established by ERISA as a federal corporation.
- Financed largely by insurance premiums paid by companies that sponsor pension plans.
- All defined benefit plans are covered except:
  - Plans covering only owners,
  - Professional employer plans covering fewer than 26 employees,
  - Governmental, Non-electing church, and Indian tribal plans.
- Professional Service Employer includes Physicians, Dentists, Chiropractors, Attorneys, CPAs, Public Engineers, Architects, Draftsmen, Actuaries and others listed in ERISA §4021(c)(2)(B).

# *PPA Restatement*

- All Defined Benefit Plans must be amended and restated between now and April 30, 2020.
- Our services include:
  - Review of current plan design through plan documents and latest actuarial report.
  - Provide plan redesign options.
  - Prepare new plan documents, administrative forms and procedures manual, and participant disclosures including Summary Plan Description.

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# *Need More Information*

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Experience Counts