

NH HICKS

Legal and Pension Consultants

Qualified Plans in Today's Environment

Defined Contribution Plans

2018

Experience Counts



Design Highlights

- Eligibility – 30% class exclusion
- Include Spouse
- New comparability plans – older owners
- 401(k) testing – safe harbors
- Uni(k) vs. SEP
- Defined Benefit 40-60-5 Rule
- Roth 401(k)
- Fee Disclosure and Offsets

DEFINED BENEFIT

DEFINED CONTRIBUTION

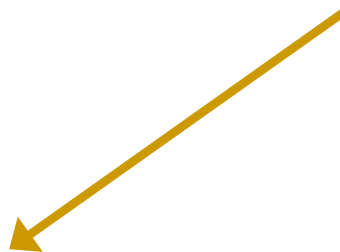
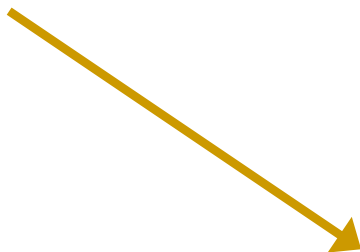
TRUST

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

401(k)

MATCH
401(m)

PROFIT
SHARING



***DISCRIMINATION
TESTING***

***ELIGIBILITY
ENTRY
VESTING***

SAFE HARBOR

ALLOCATION METHODS



TRUST

ELIGIBILITY

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

ENTRY DATES

VESTING

Distributions



TRUST

100% VESTED UPON

- Death
- Retirement
- Disability

TERMINATIONS

LOANS

HARDSHIPS

Table of Limits

	2017	2018
<u>COMPENSATION LIMIT</u> plan year beginning	270,000	275,000
<u>DC ANNUAL ADDITION LIMIT</u> plan year ending	54,000	55,000
<u>401(k) DEFERRAL LIMIT</u> calendar year	18,000	18,500
<u>CATCH-UP DEFERRAL LIMIT</u> calendar year	6,000	6,000
<u>HIGHLY COMPENSATED EMPLOYEE</u> Compensation definition only required to be met in prior plan year		
1) Over 5% owner		
2) Any employee (may limit to top 20%):	120,000	120,000
3) Spouse or linear relation		
<u>KEY EMPLOYEE</u> Employee is key if meets definition in current plan year		
1) Over 5% owner		
2) Over 1% owner:	150,000	150,000
3) Officer (count at least 1):	175,000	175,000
4) Spouse or linear relation		
<u>TAXABLE WAGE BASE</u>	127,200	128,700

Allocation Methods



TRUST

Profit Sharing

0-25%

eligible compensation

ALLOCATION

- Proportional
- SS Integration
- Age Weighted
- New Comparability

Allocation Comparisons

Assumptions		25% Salary Proportional
Age	Salary	
*55	\$50,000	\$12,500
50	50,000	12,500
*45	50,000	12,500
40	50,000	12,500
35	50,000	12,500
30	50,000	12,500
25	50,000	12,500
	\$350,000	\$87,500

Allocation Comparisons

Assumptions		25% Salary	Age
Age	Salary	Proportional	Weighted
*55	\$50,000	\$12,500	\$31,098
50	50,000	12,500	20,681
*45	50,000	12,500	13,754
40	50,000	12,500	9,147
35	50,000	12,500	6,083
30	50,000	12,500	4,046
25	50,000	12,500	2,691
	\$350,000	\$87,500	\$87,500

Allocation Comparisons

Assumptions		25% Salary	Age	New
Age	Salary	Proportional	Weighted	Comp
*55	\$50,000	\$12,500	\$31,098	\$28,750
50	50,000	12,500	20,681	6,000
*45	50,000	12,500	13,754	28,750
40	50,000	12,500	9,147	6,000
35	50,000	12,500	6,083	6,000
30	50,000	12,500	4,046	6,000
25	50,000	12,500	2,691	6,000
	\$350,000	\$87,500	\$87,500	\$87,500

Required to pass Average Benefits Test

401(k)

**MATCH
401(m)**

**PROFIT
SHARING**

100% up to \$18,500
(age 50 - \$6,000 catch-up)

Roth 401(k)



***DISCRIMINATION
TESTING***

- Top-heavy
- ADP Test

***ELIGIBILITY
ENTRY
VESTING***

SAFE HARBOR

ALLOCATION METHODS

Discrimination Tests

Top-heavy

40%- non-key

60%+ key

ADP Test

Typically NHC avg. + 2% = HC max avg.

NHC %

5

10

0

5

5% avg. + 2% = 7% max HC avg.

Prior year method on first plan year

3% assump. + 2% = 5%

No Joy Corporation

Employee	Compensation	Deferral
Orville	\$100,000	\$18,500 (18.5%)
Wilbur	100,000	3,500 (3.5%)
(22.0% / 2 = 11.0% HC Average)		
Richthofen	\$50,000	\$5,000 (10%)
Amelia	50,000	0 (0%)
Doolittle	50,000	2,500 (5%)
(15% / 3 = 5% NHC Average)		
NHC Average 5% + 2 = 7% FAIL		

Top-Heavy

No Joy Corporation

Employee	Compensation	Deferral	3% PS
Orville	\$100,000	\$18,500 (18.5%)	\$3,000
Wilbur	100,000	3,500 (3.5%)	<u>3,000</u>
(22.0% / 2 = 11.0% HC Average)			\$6,000
Richthofen	\$50,000	\$5,000 (10%)	\$1,500
Amelia	50,000	0 (0%)	1,500
Doolittle	50,000	2,500 (5%)	<u>1,500</u>
(15% / 3 = 5% NHC Average)			\$4,500
NHC Average 5% + 2 = 7% FAIL			

EMPLOYER REQUIRED \$4,500 - \$10,500

401(k)

MATCH
401(m)

PROFIT SHARING

4% Match

3% Contribution

100% up to \$18,500
(age 50 - \$6,000 catch-up)

DISCRIMINATION TESTING

- ADP Test
- Top-heavy

***ELIGIBILITY
ENTRY
VESTING***

TRUST

ALLOCATION METHODS

SAFE HARBOR

- 100% VESTED
- NEW PLANS MUST EXIST FOR AT LEAST 90 DAYS
- TERMINATED PARTICIPANTS RECEIVE CONTRIBUTION

4% Match vs. 3% PS Safe Harbor

Compensation		401(k)	Match 4%	ER Cost Total
Owner	\$275,000	\$18,500	\$11,000	\$29,500
Spouse	20,000	18,500	800	19,300
EE1	50,000	2,000	2,000	2,000
EE2	50,000	2,000	2,000	2,000
EE3	50,000	2,000	2,000	2,000

4% Match vs. 3% PS Safe Harbor

Compensation		401(k)	Match 4%	ER Cost Total
Owner	\$275,000	\$18,500	\$11,000	\$29,500
Spouse	20,000	18,500	800	19,300
EE1	50,000	2,000	2,000	2,000
EE2	50,000	2,000	2,000	2,000
EE3	50,000	2,000	2,000	2,000

Compensation		401(k)	3% Safe Harbor	ER Cost Total
Owner	\$275,000	\$18,500	\$8,250	\$26,750
Spouse	20,000	18,500	600	19,100
EE1	50,000	2,000	1,500	1,500
EE2	50,000	2,000	1,500	1,500
EE3	50,000	2,000	1,500	1,500

4% Match vs. 3% PS Safe Harbor

Compensation		401(k)	Match 4%	ER Cost Total
Owner	\$275,000	\$18,500	\$11,000	\$29,500
Spouse	20,000	18,500	800	19,300
EE1	50,000	2,000	2,000	2,000
EE2	50,000	2,000	2,000	2,000
EE3	50,000	2,000	2,000	2,000

Compensation		401(k)	3% Safe Harbor	Profit Sharing New Comp	ER Cost Total
Owner	\$275,000	\$18,500	\$8,250	\$16,500 (6%)	\$43,250
Spouse	20,000	18,500	600	1,200 (6%)	20,300
EE1	50,000	2,000	1,500		1,500
EE2	50,000	2,000	1,500		1,500
EE3	50,000	2,000	1,500		1,500

Gateway Test

4% Match vs. 3% PS Safe Harbor

Compensation		401(k)	Match 4%	ER Cost Total
Owner	\$275,000	\$18,500	\$11,000	\$29,500
Spouse	20,000	18,500	800	19,300
EE1	50,000	2,000	2,000	2,000
EE2	50,000	2,000	2,000	2,000
EE3	50,000	2,000	2,000	2,000

Compensation		401(k)	3% Safe Harbor	Profit Sharing New Comp.	ER Cost Total
Owner	\$275,000	\$18,500	\$8,250	\$28,250 (10.3%)	\$55,000
Spouse	20,000	18,500	600	2,067 (10.3%)	21,167
EE1	50,000	2,000	1,500	750 (1.5%)	2,250
EE2	50,000	2,000	1,500	750 (1.5%)	2,250
EE3	50,000	2,000	1,500	750 (1.5%)	2,250

SEP vs. UNI(k)

Comp.	25% SEP	25% PS + 401(k)
\$220,000	\$55,000	\$55,000
Total	\$55,000	\$55,000

\$220,000 Break Even SEP V. 401(k) with \$55,000 Contribution

SEP vs. UNI(k)

Comp.	25% SEP	25% PS + 401(k)
\$100,000	\$25,000	\$25,000 +24,500
Total	\$25,000	\$49,500

SEP vs. UNI(k)

Comp.	25% SEP	25% PS + 401(k)
\$100,000	\$25,000	\$25,000 +24,500
\$30,000 Spouse	\$7,500	\$7,500 +24,500
Total	\$32,500	\$81,500

SEP vs. UNI(k) vs. DB

Comp.	25% SEP	25% PS + 401(k)	DB
\$100,000	\$25,000	\$25,000 +24,500	\$212,000
\$30,000 Spouse	\$7,500	\$7,500 +24,500	\$42,000
Total	\$32,500	\$81,500	\$254,000

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	\$32,500
EE Cont	\$25,000
ER %	57%

Plan Comparisons

	25% SEP	3% Match SIMPLE
Owner ⁵⁷ \$100,000	\$25,000	\$3,000 +15,500
Spouse ⁵⁷ \$30,000	\$7,500	\$900 +15,500
Jack ³⁰ \$50,000	\$12,500	\$1,500 +12,500
Jill ²⁵ \$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 ⁵⁷ \$100,000	\$25,000	\$18,500	\$36,000 +24,500
Spouse ⁵⁷ \$30,000	\$7,500	\$16,400	\$12,000 +24,500
Jack ³⁰ \$50,000	\$12,500	\$1,500 +12,500	\$2,500 +18,500
Jill ²⁵ \$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 ⁵⁷ \$100,000	\$25,000	\$18,500	\$60,500	\$256,634
Spouse ⁵⁷ \$30,000	\$7,500	\$16,400	\$36,500	\$80,514
Jack ³⁰ \$50,000	\$12,500	\$1,500 +12,500	\$2,500 +18,500	\$27,566
Jill ²⁵ \$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 ⁵⁷ \$100,000	\$25,000	\$18,500	\$60,500	\$256,634	\$260,277 +24,500
Spouse ⁵⁷ \$30,000	\$7,500	\$16,400	\$36,500	\$80,514	\$81,823 +24,500
Jack ³⁰ \$50,000	\$12,500	\$1,500 +12,500	\$2,500 +18,500	\$27,566	\$5,550 +18,500
Jill ²⁵ \$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%

Design Highlights

- Eligibility – 30% class exclusion
- Include Spouse
- New comparability plans – older owners
- 401(k) testing – safe harbors
- Uni(k) vs. SEP
- Defined Benefit 40-60-5 Rule
- Roth 401(k)
- Fee Disclosure and Offsets

Need More Information

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