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DEFINED BENEFIT PLANS NEED ATTENTION NOW

Defined Benefit Plans (DB) provide tremendous tax savings for small business owners. When combined with 401(k) plans, owners will save big dollars on contributions for covered employees. Defined benefit plans require advisors to be proactive, as the plan can be affected by business and investment factors. By staying ahead of the curve and reviewing how factors may have changed, your defined benefit clients won't be surprised at the end of the year. Now is the time to contact your current and future DB clients and review the following issues:

INVESTMENT RETURNS FOR 2017: Last year the market saw great gains for most investments. While this makes advisors and clients happy, this can wreak havoc with small defined benefit plans and their future contributions and deductions. Generally, an actuary will use an assumed interest rate of 5% for investment returns within cash balance and traditional defined benefit plans. When a plan sees a 25% gain, future contributions will be greatly reduced, maybe even resulting in a zero contribution. Many professionals rely on these big deductions for tax planning purposes and they need to understand it may not be available for the defined benefit plan this year. Constant large contributions and investment gains will result in an overfunded defined benefit plan (a plan in which the assets exceed the plan's benefits).

A review now may allow for an amendment, or maybe adding a spouse or other family member to the plan, may help with any overfunding issue. In addition, it may be wise to reallocate defined benefit assets to remove market risk and large investment returns. It some cases, the DB may need to be terminated immediately to keep the over funding problem from getting worse as the plan continues to grow faster than the actuarial assumptions. Bottom line, call and review returns for 2017 and see how that will affect funding for 2018 and future years.

BUSINESS GROWTH IN PAST YEARS: Many small businesses have added employees over the past few years as the economy has improved. How many new employees will be entering the plan in 2018? What are their ages? Having an influx of employees will increase the plan's cost to the employer and may adversely affect testing if they are older. Now is the time to review and plan for this additional cost.

A plan may be amended to lower its contribution if it is executed before the employees work 1,000 hours (or hours required in plan document) in the year. This means we have until approximately May to amend the plan to decrease contribution requirement for 2018. Call your client and ask how their year looks? Find out what is the potential cost for new employees and do they need to change the plan design. Better a call now, than receive a surprise later after it is too late and the additional funding is required.

CASH BALANCE FUNDING ISSUES: Cash Balance Plans are a great tool for "Owners" who want to contribute different amounts. They will generally require an 8-10% of pay contribution to a 401(k) or profit sharing plan for the employees, while allowing the owners to do different and much greater amounts. We are using these for medical and legal practices where each owner is at a different point in their funding life. The cash balance plan allows us to outline the contribution for each principal, while being tested as one plan. What one owner does may affect what the others can do. This is particularly important if a young owner joins the plan and wants to contribute a large amount.

An owner may reduce their contribution under the 1,000 hour rule, but has until the end of the current plan year to increase it. A meeting with current cash balance plan sponsor to review their 2018 needs is in order to assure all the owners will be able to contribute the amount that best suits their needs.

DEFINED BENEFIT PLANS NEED TO BE RESTATED: Beginning in April, existing defined benefit clients will be getting letters explaining the need and cost to re-write their plan to comply with the PPA regulations. Many companies will be overcharging for this work. It is a great time to review your current provider's services and fees and move clients to a better administrative situation. By being proactive in this area, you can provide extra value by saving your clients money on this required restatement process. We are willing and able to provide special pricing for these take over clients. Contact Debbie here for more information.