

NH HICKS

Legal and Pension Consultants

QUALIFIED PLANS IN TODAY'S ENVIRONMENT

Defined Benefit Plans

2018



NH HICKS
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www.nhhicks.com

Who we are:

NH HICKS is a multi-generational company with one goal: To provide the best service, value and price in the retirement plan industry.

Each client is assigned an administrator and a consultant. Our administrators have over 225 years of combined experience. This provides administrative support by which we can ensure that all plan administration is performed in a timely manner, with a high degree of expertise. Our consultants assure a presence for one-on-one meetings to design and explain a plan that best fits a company's business and its retirement goals.

What we do:

NH HICKS specializes in quality pension plan administration with local service at a reasonable cost. We are a fee only third party pension administration and consulting firm that does not handle any investments or insurance. We offer flexibility through individually designed retirement plans and self-directed retirement accounts. Self-directed gives clients freedom to choose their own investments.

We currently administer over 1000 qualified retirement plans throughout California, Oregon, Washington, Colorado, Utah and Idaho. Our goal is to provide excellent service to all clients by working closely with their tax and financial advisors.

Given the continuous stream of regulations, our firm and legal department are unsurpassed in experience and constantly updating and adapting to today's regulatory environment. Our annual plan review keeps our clients up-to-date with the best possible plan options along with keeping your plan in compliance with the latest IRS and DOL regulations.

www.nhhicks.com:

Our website is being updated daily with the newest regulations, common trends and articles from leaders in the financial industry. We have adapted to new technology, gone paperless, added value to our website and brought value through actively participating in numerous social media forums. You will also be able to find our complete staff biographies, email addresses, fees, forms, FAQ's and other vital information.

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PLAN DESIGN HIGHLIGHTS FOR DEFINED BENEFIT PLANS

- 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

GENERAL OVERVIEW DEFINED BENEFIT PENSION PLAN

What is a Defined Benefit Pension Plan (DB)?

A Defined Benefit Pension Plan (DB) is a qualified retirement plan where contributions to the plan are based on a participant's age and compensation. While eligibility and distribution options are the same as other qualified plans, an actuary calculates how much a company must contribute to meet the 'benefit defined' in the plan document.

How does a Defined Benefit Pension Plan work?

A DB plan provides a specific benefit at a participant's retirement age. The plan's actuary determines the value of that benefit in the form of a single sum. The DB plan must accumulate the funds to provide that benefit by the time the participant reaches retirement age. The plan accumulates funds through contributions and earnings. An older participant has less time until retirement and therefore less time for the plan to accumulate the funds required to provide his/her retirement benefit. Accordingly, the contribution on behalf of the older participant must be relatively high compared to those required for a younger participant.

Here is a simple example:

Participant	Age	Compensation	Annual Contribution	Benefit at Retirement
Owner	55	\$275,000	\$232,102	\$1,907,455
Employee	21	\$24,000	\$2,521	\$304,181

How can the IRS allow such disparity between the owners and employees contributions?

It only appears there is disparity between the benefits being provided to the two individuals in the example above. Actually, the plan is providing the same benefit to both participants. The plan is providing a similar retirement annuity as a percentage of income to both participants. The perceived disparity exists because the owner's compensation is much larger than the employee's compensation and the owner is older than the employee.

This fact pattern is not unusual among small employers. Accordingly, the DB plan can be an extremely powerful tool enabling the small business owner large contributions, while minimizing employee cost.

Flexibility

DB plans are much more flexible than the typical business owner might think. With a valid business reason, these Plans can be terminated in as few as three years after inception (assuming a minimal contribution of \$5,000 per year). Proper plan design and effective funding strategies can provide owners with the flexibility they need to annually contribute their desired amount. If the investments under perform, contributions should increase and likewise contributions will decrease if funds exceed plan expectations. Furthermore, if an owner's contribution objectives change considerably, the plan can be amended to provide the needed additional flexibility.

Defined Benefit/Defined Contribution Combo Plan

A Defined Benefit/Defined Contribution Combination Plan (DB/DC) offers owners a two-plan approach to saving for retirement. Since the Pension Protection Act, many plans now allow owners an additional DC contribution and individual 401(k) salary deferrals of \$18,500 (\$24,500 if age 50).

A general example of a DB/DC Combo Plan is outlined below followed by an explanation of each combination types:

Participant	Age	Compensation	Defined Benefit Contribution	DB Carve Out Contribution
Owner	57	\$100,000	\$256,634	\$260,277
Spouse	57	30,000	80,514	81,823
Employee 1	30	50,000	27,566	5,550
Employee 2	25	50,000	18,913	5,550

1. Turbo-charge any Defined Benefit Plan (maximizes benefits for all participants)

In addition to the DB plan contribution, owners may contribute up to 6% into a DC plan. Individuals may also contribute an additional \$18,500 pre-tax into a separate 401(k) Profit Sharing Plan (\$24,500 if age 50). This will work well for an employer without employees; otherwise the plan must satisfy the 401(k) ADP test (a safe harbor may be used).

2. Floor Offset (good for PBGC covered plans)

The Floor Offset establishes a DB Plan for owners and a DC Plan for employees. The benefits provided under the DB Plan are reduced by the value of the participant's account in the DC Plan. The DC Plan participants receive an estimated 5 – 10% of pay contribution.

3. Super Combo (good for non-PBGC covered plans)

This design establishes both plans, and all participants receive benefits in both plans. In the DC Plan, 6% of total compensation is allocated using tiers; where the employees receive an estimated 7.5% and owners receive the remainder. In the DB Plan, owners receive the maximum benefit and the employees receive the smallest benefit permitted.

4. Carve-Out (good for several owners with only 3 or fewer employees)

This design establishes a DB Plan for owners and a DC Plan for employees. It is a great way to maximize contributions for owners while controlling the employee cost. There are requirements which must be considered including at least 2 participants in the DB Plan, 40% of the participants are in the DB Plan, and there are no common participants between the DB and DC company contributions (except 401(k)).

5. Cash Balance Plans (good for company with multiple owners)

This is a DB Plan that specifies both the contribution to be credited to each participant account (such as a percent of pay or a flat dollar amount) and the investment earnings to be credited on those contributions. Each participant has an account that resembles those in 401(k) plan. The advantage of this DB Plan is you know what is going into the plan for each participant and what will be paid out when they leave. A 401(k) Plan may also be added.

If you have any questions or would like to meet, please call NH HICKS.

DEFINED BENEFIT CONTRIBUTIONS

**Effective for Plan Years Ending in 2018
With NRA 62 and 5 Years of Participation**

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	268,298
64	127,046	211,745	285,952	295,575	295,575	295,575	295,575	295,575	295,575

- Comp is W-2 wages, or self-employment income less self-employment tax deduction and pension deduction for the self-employed and their share of any employee cost.
- The individual is assumed to have been in business for at least three years.
- Contribution amounts may be less when using a DB/DC Combination design.
- For owner only plans, increase the amount shown by 1.25 due to the granting of past service.

Owner Only – Defined Benefit Plans

Owner only Defined Benefit Plans (DB) are a great way to for sole practitioners and other owner only businesses to create big contributions, tax deductions and savings for retirement. While a traditional 401(k) or SEP is limited to \$55,000 (\$61,000 if age 50+) annually, contributions in a DB plan can go as high \$275,000 per year.

Why Choose an Owner Only Defined Benefit Plan?

- **Easy to Setup and Operate.** These plans are easy to setup and operate. Our trained consultants and administrators can help you every step of the way.
- **Tax Savings.** Get immediate tax savings. Contributions are tax deductible and grow tax-deferred.
- **Larger Contributions.** For example:
 - 40 year old making \$90,000 can make a \$110,000 contribution.
 - 50 year old making \$90,000 can make a \$180,000 contribution.
 - 60 year old making \$90,000 can make a \$235,000 contribution.

If you need an estimate, view our Defined Benefit Contribution chart [click here](#). We will prepare a proposal reflecting maximum contributions available at no cost. [Click here](#) for our proposal request.

- **Access to Your Money.** You can borrow from your account balance, and the loan is tax free, as long as it is paid back in a timely manner.
- **Self-Directed Investments.** You and your financial consultant choose the investments that are right for you within the law. Beware of self-dealing rules. Avoid prohibited transactions and issues of UBTI.
- **IRS Approved Documents.** We use prototype plan documents that have been pre-approved by IRS.
- **Inexpensive.** Less actuarial reporting allows us to keep fees lower than DB plans with employees.
- **Add to an Existing Plan.** A Defined Benefit Plan may be added to an existing 401(k) or Defined Contribution Plan to increase annual deductions.
- **Technical and Legal Answers.** We are here to help and answer questions regarding all aspects of the operation of your plan.

How Much Does It Cost?

- Installation/Documents: \$1,300
(Takeover - no charge)
- Annual Administration: \$1,500

PLAN TYPE COMPARISONS
(For plan years beginning in 2018)

Assumptions		Plan Types				
Participants	Age	Compensation	25% SEP	3% Match SIMPLE	401(k) PS	DB Combo
Owner	57	\$100,000	\$25,000	\$3,000 + 15,500	\$36,000 + 24,500	\$180,200 + 24,500
Spouse	57	30,000	7,500	900 + 15,500	12,000 + 24,500	56,180 + 24,500
Employee 1	30	50,000	12,500	1,500 (0 - 12,500)	2,500 (0 - 18,500)	5,000 (0 - 18,500)
Employee 2	25	50,000	12,500	1,500 (0 - 12,500)	2,500 (0 - 18,500)	5,000 (0 - 18,500)
Contribution To Owners			\$32,500	\$34,900	\$97,000	\$236,380
Contribution To Employees			\$25,000	\$3,000	\$5,000	\$21,400
Owners %			57%	92%	95%	92%
						97%

The figures illustrated are dependent on many factors. Please consult with qualified advisors to determine applicable limits.

Cash Balance Plan

A cash balance retirement plan is a defined benefit plan that gives the appearance of operating more like a 401(k) plan than a traditional defined benefit plan.

How a Cash Balance Plan Works

Like a 401(k) plan, each participant has an account and his or her benefit is based on the value of the account. However, unlike a 401(k) plan, a cash balance plan account is only hypothetical. It exists only on paper and is for recordkeeping purposes only. No assets are segregated in the account and the participant does not direct the investment of the account.

The plan's formula provides a contribution amount that will be credited to the participant account. There are a variety of ways the amount can be calculated, but the most common are a fixed dollar amount (such as, \$10,000 a year) or a percentage of compensation (such as, 5% of compensation). Usually, the amount is credited to the account annually at the end of the plan year.

The account is then credited annually with "interest" based on a rate specified in the plan document. The rate can be a fixed rate of interest or tied to a market index. The interest credit is guaranteed and is independent on the plan's investment performance. Currently this rate is 5%.

The accounts are maintained by the plan's actuary, who generates annual participant statements. The benefit payable to a participant is expressed as a lump-sum amount – a cash balance in an account. That's different from a traditional defined benefit plan, which expresses its benefit as an annuity payable in the future for the participant's lifetime.

Actual Deductible Contributions

The actual contribution to the cash balance retirement plan determined by the plan's actuary. Typically, the contribution isn't the same as when calculated using the plan's formula. If the actual investment return is particularly poor over a period of time, the actual contribution may need to be higher.

The Advantages of Cash Balance Plans

- If the participant terminates employment, he or she will be entitled to a single sum payment. That participant could then roll that benefit to an IRA or another qualified plan. By having a known dollar amount at termination or retirement, participants are able to better plan for their retirement.
- The company is only required to earn the established interest rate. Any amounts earned over this rate will reduce future contributions.
- Paired with 401(k) plan is an effective means to control employee costs, while maximizing benefits for the owners.

What must a client be ready for if they adopt a cash balance plan?

- Contributions are required each year.
- Once the contribution has been earned for the year it must be funded, even if the participant has terminated service.
- Accounts must be fully vested after three (3) years of service. There is no graded vesting schedule.
- Currently, plans may be established on a volume submitter basis, which will help reduce start up costs.

Cash Balance plans can enhance the effectiveness of an employer's retirement program, but they must be designed thoughtfully and carefully administered. NH Hicks can provide these services.

Pension Benefit Guaranty Corporation (PBGC)

Overview

ERISA established the Pension Benefit Guaranty Corporation (PBGC) as a federal corporation.

The PBGC receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor pension plans and by PBGC's investment returns.

PBGC has three principal missions:

1. To encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants.
2. To provide for the timely and uninterrupted payment of pension benefits to participants and beneficiaries under covered plans when bankruptcy occurs.
3. To maintain premiums at the lowest level consistent with fulfilling its obligations.

The program insures only private-sector defined benefit plans; it does not insure church or public-sector pension plans, nor does it insure defined contribution plans (such as 401(k) plans).

The PBGC covers both single-employer and multiemployer pension plans.

Plans Covered by the PBGC

The general rule is that all defined benefit plans are covered by the PBGC unless, the defined benefit plan qualifies for a statutory PBGC coverage exemption. These statutory exemptions are covered in ERISA Section 4021(b).

The more common of the exemptions are as follows:

- Plans covering only owners,
- Professional employer plans covering fewer than twenty-six employees,
- Governmental plans including plans maintained by the US federal government, by a state, by a county or by a city,
- Non-electing church plans,
- Indian tribal government plans,
- Plans established and maintained outside of the United States for the purpose of covering non-resident aliens,
- Excess benefit plans and top hat plans.

Professional

Service

Employer

Defined

ERISA §4021(c)(2) defines a professional service employer as a business owned by one or more professionals and whose primary business purpose is to provide professional services. ERISA § 4021(c)(2)(B) provides a non-exclusive list of professionals:

Physicians	Dentists	Chiropractors
Osteopaths	Optometrists	Other licensed practitioners of the healing arts
Attorneys at Law	Public Accountants	Public Engineers
Architects	Draftsmen	Actuaries
Psychologists	Performing Artists	Social or Physical Scientists

Since the list defined in ERISA is not exhaustive, the PBGC will, on occasion, issue guidance about which additional professionals may or may not be considered professional for purposes of satisfying the professional service exemption.

PPA Restatement Services and Fees

All Defined Benefit Plans must be amended and restated between now and April 30, 2020. If you need assistance with this, NH HICKS can help.

Our PPA restatement services include:

1. A review of your current plan documents and preparation of any required amendments to get the old document in compliance.
2. Consulting on options including the pros and cons of different plan designs.
3. A new PPA plan and trust document and all participant disclosures including the Summary Plan Description required by law.
4. If you don't require our TPA services you will become a Document Only client of NH HICKS and will be informed of future amendments and changes that may be required.

Our fees for this service are:

\$1,250 Defined Benefit Plan
\$1,400 Cash Balance Plan
\$850 Owner Only Plans

Interested? We will need you to complete our [PPA Restatement Checklist](#) and provide us with your last administration or complete our [Proposal Request form](#).

Now is the perfect opportunity to add or revise your current plan to better fit your business needs. It could be eligibility, vesting or adding a safe harbor provision.

If you have a defined benefit plan and would like to make an additional contribution, adding a Defined Contribution plan might better suit your needs.

Contact Samantha Nethington at (530) 891-4975 or snethington@nhhicks.com to get started today.

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FEES FOR SERVICES

401(k) Profit Sharing Plans:

Installation/Documents (takeover no charge)	\$1150 + \$10 per eligible participant
Administration	\$1350 + \$30 per eligible participant

Defined Benefit Plans:

Installation/Documents (takeover no charge)	\$1350 + \$10 per eligible participant
Administration including actuarial certification	\$2000 + \$50 per eligible participant

DB/DC Combination Plans:

Installation/Documents (takeover no charge)	\$2700 + \$20 per eligible participant
Administration including actuarial certification	\$3450 + \$50 per eligible participant

*Additional Fees will be added for the installation and administration of Cash Balance Plans

Owner Only –401(k):

Installation/Documents (takeover no charge)	\$550
Administration (assets less than \$250,000).....	\$300
Administration (assets \$250,000 and more).....	\$550

Owner Only – Defined Benefit Plan:

Installation/Documents (takeover no charge)	\$1300
Administration including actuarial certification	\$1500

Owner Only – DB/DC Combination Plans:

Installation/Documents (takeover no charge)	\$1700
Administration including actuarial certification	\$1900

Special Transactions:

Defined Contribution Plans

Comparability allocation (multiple runs)	\$250
Amendments, trust accounting or 5500 audit consulting	\$125 per hour
Distributions or extensions (annual loan \$35)	\$ 95
QDRO or RMD.....	\$225

Defined Benefit Plans

PBGC Reporting	\$225
Trust accounting or 5500 audit consulting.....	\$125 per hour
Distributions or amendments	\$225
Loans (annual loan \$35) or Extensions.....	\$ 95
PPA restatements (\$850 owner-only; \$1400 cash balance).....	\$1250

Our fees are offset by all third party payments we receive from investment companies.