

HICKS NOTES

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DEFINED BENEFIT PLANS FOR 2018 – THE PERFECT STORM

In Northern California, we have seen the devastation caused by various factors lining up to create a “Perfect Storm”. Overgrown forests, a wet year that created underbrush, dry weather, high winds, and a spark. In 24 hours, a whole town and the outlying communities have been destroyed or severely damaged. While the loss of life and property is heart wrenching, our strength of spirit will allow us to rebuild bigger, and better.

Between now and the end of the year, there is another storm. This one being a tremendous opportunity for companies to adopt a Defined Benefit plans (DB).

The first factor is a new provision in the tax bill known as “Tax Cuts and Jobs Act”, passed in December 2017. The new law allows for those business entities with pass-through income (Sole Proprietors, S-Corps, LLCs) to have an opportunity to deduct up to 20% of the Qualified Business Income (QBI), also known as the 199A deduction. In order to take advantage of the full deduction, the taxable income cannot exceed \$315,000 (Joint Filers) or \$157,500 (Single Filers). This deduction is phased out for income in excess of the amounts indicated. By adding a Defined Benefit plan for these businesses, they can reduce their income to get within these thresholds and take advantage of the full 199A deduction.

The second factor is the use of the Average Benefits Test. This rule allows for the creation of classes of employees to pass discriminations tests based on average benefits as opposed to individual benefits. This rule also allows us to create combination plans where employers or owners are given big contributions in a Defined Benefit plan, while providing minimum amounts for employees in a Defined Contribution plan (401(k) or Profit Sharing). These COMBO PLANS work great for those companies that have employees and a high earning owner. For more information, click [here](#).

[Cash Balance Defined Benefit](#) plans have been approved on a volume submitter basis. These plans provide tremendous flexibility and certainty of contributions and benefits. We are utilizing these plans especially for those companies whose highly paid individuals want different contributions.

Administrative Competence is an important area for review. Has there been turnover of staff? Are calls answered timely and accurately? Are problems solved or only more problems discussed? Many administration firms are only interested in growth and don't have the staff to properly handle their clients. If your administrator is overworked or frequently changed, there can be communication and problem solving breakdown. Now is the perfect time to make a move. Here's [some help](#).

Legal Issues may arise that require special attention. Real estate in the plan, controlled or affiliated service groups, DOMA, and failed tests may all raise special legal issues in retirement plans. Having a good legal understanding of the various issues involved and the compliance programs available will help a trustee navigate these complex legal questions. A good administrator will have an attorney available in case these issues arise. Review your service agreement with regards to these matters and judge accordingly. Attend our legal issue [webinar](#) to get a better understanding of how these issues may be identified and resolved.

A third factor is the economy. Those in real-estate, construction, software and other professions are seeing growth and profits. With profits comes taxes and a Defined Benefit plan is a great way to reduce this taxable income. Setting up an [Owner-Only DB](#) or adding an [Owner-Only 401\(k\)](#) to an existing DB client is the best way to get the deduction these profitable companies need. Since age and income are a factor, our [Defined Benefit Contribution Chart](#) can help illustrate what may be possible for these owner only companies. Use this chart only as an estimate and review the compensation notes at the bottom..

Restatements of Defined Benefit plans are under way. Every DB plan must be restated by April 30, 2020. Click [here](#) for more information. This is a tremendous opportunity to revisit your clients' defined benefit plans, checking their plan design and fees (restatement and annual administration). We have competitive fees and a quick process to help clients who have existing plans. Use this as a marketing tool to get new clients with existing DB plans that are paying too much for this work. We do not charge to takeover a plan.

Finally, clients have until December 31, 2018 to **establish new Defined Benefit** and 401(k) plans and still get the deduction for 2018. Let us run a [proposal](#) for you to illustrate what your client can do.

If you want to **learn more about defined benefit plans**, [listen](#) to our 1 hour webinar and become versed on this subject.

We are heartbroken and saddened by the destruction caused by wild fires in our community. If you wish to make a donation to benefit the victims, click [here](#). All funds collected will be distributed to people in need through local non-profit relief agencies directly serving fire victims with immediate needs.