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(800) 310-4975 | www.nhhicks.com

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By Tom Hicks, Attorney At Law

YEAR END BRINGS OPPORTUNITY AND TRAPS

As the 2019 calendar year comes to an end, we should be aware of the opportunities and traps this deadline entails.

As for **OPPORTUNITIES**, the law states a new plan must "be established" by the end of the year. In order to be established, a trust should be opened and an authorization form or resolution/document be signed showing that a plan is in place before December 31st. This provides opportunities to discuss adding or starting new plans NOW.

Current SEP clients should be called to see if they have employees who are eligible this year or next. By **adding a 401(k) Profit Sharing Plan**, an owner can reduce their required employee costs. Even though the 401(k) safe harbor deadline has passed, an owner can set up a 401(k) for 2019, defer 5% of their compensation (plus $6,000 catch-up contribution if age 50) using prior year testing method, and then contribute 3% for their employees. This may get the owner an additional 9% if tiered benefit testing and ages are good. In other words, you give 3% of pay to employees and get 14% for yourself. A much better deal than a straight SEP. The plan is then amend to a Safe Harbor 401(k) for 2020 and the numbers get even better.

For clients who had a great year and need a bigger deduction, adding a DEFINED BENEFIT plan (DB) is still an option. This can be arranged as a traditional DB, a cash balance plan or a combination DB and 401(k) design. The economy is booming so call your clients that are in real estate, or professionals that may have had a good year. For proposals showing how we can help your clients, click here.

In addition, **Amendments** to **Defined Contribution** plans (DC) may be made by the end of the year if clients have a "not employed on the last day" provision in their plan. For DC Plans, a change may be in order to help maximize the plan's desired contributions or change the plan for future participants. This may be a change in eligibility, vesting schedule or the plan's design. Your clients' businesses may be growing or shrinking and amending the plan to respond to these changes is always a good idea. A **yearend review** makes sense while time still remains.

As for **TRAPS**, every plan sponsor should be aware of these issues and plan accordingly.

Required Minimum Distributions: RMDs must be taken by April 1st and again by December 31st of the calendar year after the year in which a person turns 70½, and each year thereafter the deadline is December 31st for all defined contribution plans. These amounts are based on all pretax money, so beware when a plan administrator or somebody calculates the amount. RMD's also must be taken from the DB plan. They must be taken separately from each retirement plan. IRAs can be combined for calculation purposes and RMD payment may be taken from one or more IRAs. People are often confused on these rules and should be double checked for your clients that are over 70.

Failed ADP Tests: Actual deferral percentage tests are for non-Safe Harbor plans. If this test has failed, distributions are supposed to be made by March 15th of the following year. If not, the plan sponsor has until December 31st to return the amounts due and incur a 10% penalty. Now is a great time to run an estimated test to be ahead of the curve with regards to the highly compensated participants.

Notices: There are a variety of notices that have December 1st deadlines. These include 401(k) safe harbor, QACA safe harbor, EACA, ACA, and QDIA notices (due 30 days before the beginning of the plan year) and other notices as well as amendments. For a full list of these deadlines, click here.

ASOP: For plan years beginning in 2018, actuaries had to calculate and report on the new "Pension Risk" ASOP. In addition to normal calculations of funding targets, target normal costs, funding status, etc., ASOP 51 requires the actuary to identify potential risks that "may be reasonably anticipated to significantly affect the plan's future financial condition." These new requirements will increase the fees for all DB plans by at least one hundred dollars. A good financial planner will use this new information to determine a balanced investment strategy and protect future funding issues with their DB clients, click here. Section 199A of the Internal Revenue Code produces Defined Benefit opportunities. Beginning in 2018, small businesses with pass through income must get below certain income thresholds to receive the full 20% deduction. This has created opportunities for more new Defined Benefit plans due to their large deductions/contributions. A good tax practitioner and financial advisor would do well to get educated on this rule and bring added value to their small business clients.

Bottom line: Now is the time to contact clients and make changes before it is too late. We can help. Contact us today.