

# NH HICKS

Legal and Pension Consultants

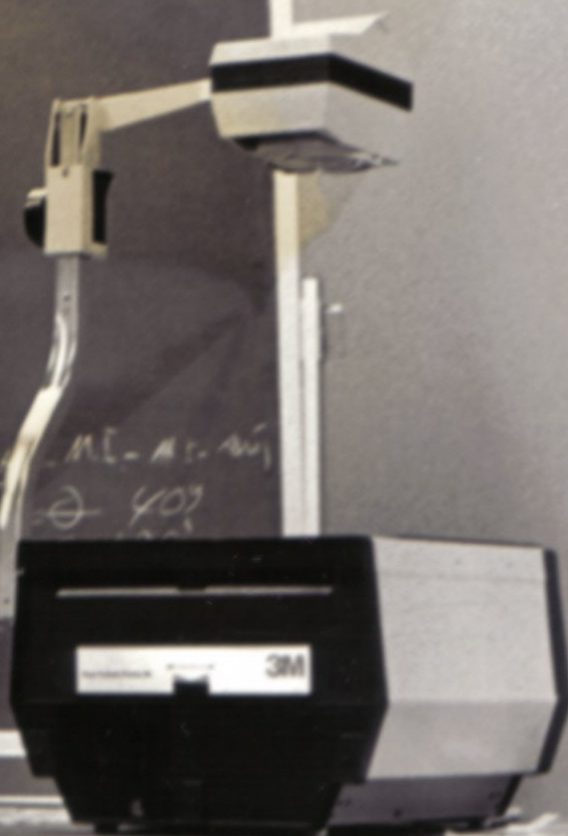
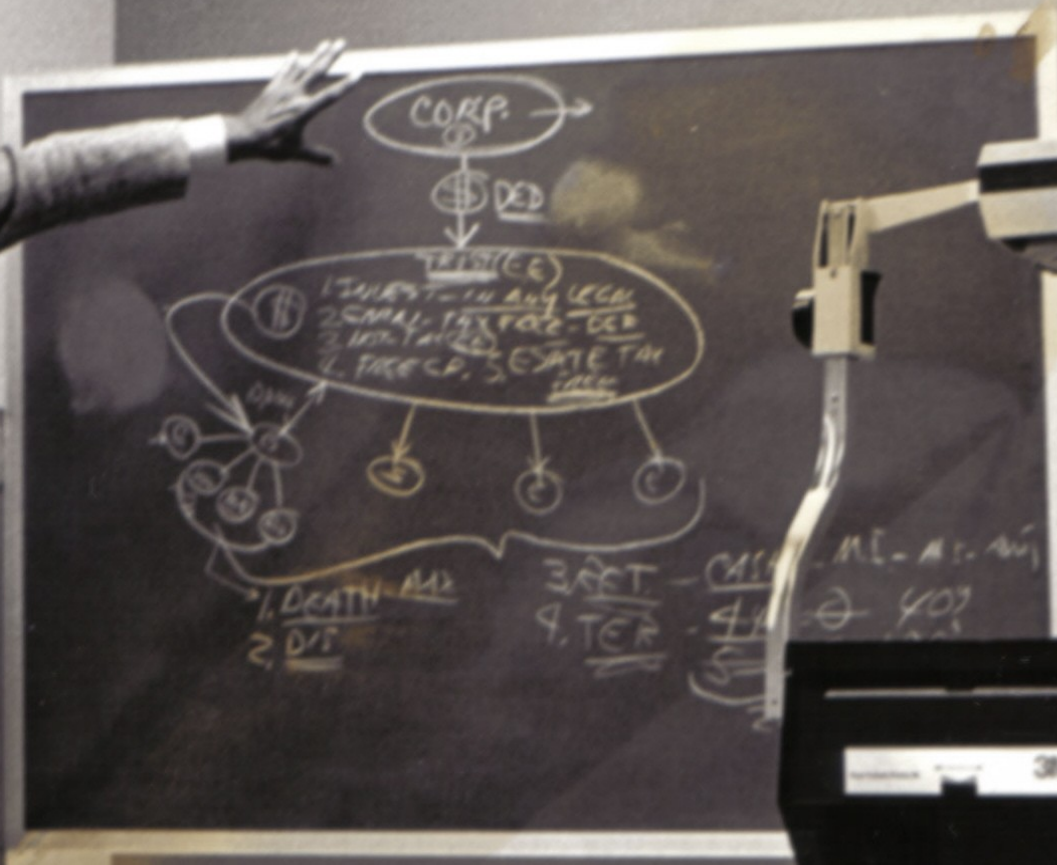
**Qualified Plans in Today's Environment**

**Defined Benefit Plans**

**2020**

Experience Counts





# *Design Highlights*

- 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
- Cash Balance Plans
- PBGC
- Changes Due to COVID-19
- New Plan Set Up Deadlines

## ***DEFINED BENEFIT***

## ***DEFINED CONTRIBUTION***

### **TRUST**

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



TRUST

## **ELIGIBILITY**

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

## **ENTRY DATES**

## **VESTING**

# *Distributions*

## **100% VESTED UPON**

- Death
- Retirement

## **TERMINATIONS**

## **LOANS**



TRUST

# Defined Benefit Plan

## General Assumptions

Age 48	NRA 62	Life Exp. 85
Comp. \$225,000	Fund \$2,852,000	Pay \$225,000
Requires \$153,328 contribution		

- Interest rates
- Retirement age
- Investment selection
- Funding range
- Funding flexibility
- Overfunding
- Unable to fund
- DB Chart

# Defined Benefit Contributions

Ages/Comp	30,000	50,000	70,000	90,000	110,000	130,000	150,000	170,000	190,000
32	49,836	72,892	83,827	83,827	83,827	83,827	83,827	83,827	83,827
34	54,266	80,413	92,476	92,476	92,476	92,476	92,476	92,476	92,476
36	59,090	88,727	102,038	102,038	102,038	102,038	102,038	102,038	102,038
38	64,343	97,919	112,608	112,608	112,608	112,608	112,608	112,608	112,608
40	70,062	108,084	124,296	124,296	124,296	124,296	124,296	124,296	124,296
42	76,711	119,328	137,229	137,229	137,229	137,229	137,229	137,229	137,229
44	84,384	131,789	151,556	151,556	151,556	151,556	151,556	151,556	151,556
46	92,615	145,597	167,435	167,435	167,435	167,435	167,435	167,435	167,435
48	101,442	160,906	185,042	185,042	185,042	185,042	185,042	185,042	185,042
50	110,909	177,885	204,568	204,568	204,568	204,568	204,568	204,568	204,568
52	121,059	196,720	226,228	226,228	226,228	226,228	226,228	226,228	226,228
54	131,943	217,668	250,318	250,318	250,318	250,318	250,318	250,318	250,318
56	144,557	240,931	277,070	277,070	277,070	277,070	277,070	277,070	277,070
58	148,892	248,153	285,377	285,377	285,377	285,377	285,377	285,377	285,377
60	142,353	237,254	272,843	272,843	272,843	272,843	272,843	272,843	272,843
62	135,611	226,020	300,383	300,383	300,383	300,383	300,383	300,383	300,383
64	128,570	214,285	299,997	331,843	331,843	331,843	331,843	331,843	331,843

- Contributions based on NRA 62 and 5 Years of Participation.
- Comp is W-2 wages, or self-employment income less self-employment tax deduction and pension deduction for the self employed and his/her share of any employee cost.
- Contribution amounts may be less when using a DB/DC Combo design.



# *Defined Benefit Plan*

	Age	Comp	DB
Orville	63	\$285,000	\$218,000
Wilbur	25	50,000	4,000
Richthofen	28	50,000	6,000
Amelia	40	50,000	14,000
Doolittle	45	50,000	22,000

# DB Combination Plan

**40 – 60 – 5  
RULE**

## DB Floor Offset

	Age	Comp	DB	DB	7.5% PS	401(k)
Orville	63	285,000	\$218,000	\$212,000	\$21,375	\$26,000
Wilbur	25	50,000	4,000	-0-	3,750	---
Richthofen	28	50,000	6,000	-0-	3,750	---
Amelia	40	50,000	14,000	-0-	3,750	---
Doolittle	45	50,000	22,000	-0-	3,750	---

\$41,375 more for owner, while \$31,000 less for employees =  
**\$72,375 DIFFERENCE**

### Requires:

- Minimum employee contribution of 5–6%
- Good for PBGC covered plans

# *DB Plan Comparison*

- DB + 401(k)
  - Maximizes benefits for everyone
- Floor Offset
  - Good for PBGC covered plans
- Super Combo
  - Good non-PBGC covered plans
- Carve out
  - Good for 2+ owners and 3 or less employees
- Cash balance
  - Contributions as % of pay or flat \$ amount

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

# Plan Comparisons

	25% SEP	3% Match SIMPLE
Owner <sup>57</sup> \$100,000	\$25,000	\$3,000 +16,500
Spouse <sup>57</sup> \$30,000	\$7,500	\$900 +16,500
Jack <sup>30</sup> \$50,000	\$12,500	\$1,500 +13,500
Jill <sup>25</sup> \$50,000	\$12,500	\$1,500 +13,500
ER Cont	\$32,500	\$36,900
EE Cont	\$25,000	\$3,000
ER %	57%	92%

# Plan Comparisons

	25% SEP	3% Match SIMPLE	401(k) PS
Owner <sup>57</sup> \$100,000	\$25,000	\$19,500	\$37,500 +26,000
Spouse <sup>57</sup> \$30,000	\$7,500	\$17,400	\$10,500 +26,000
Jack <sup>30</sup> \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500
Jill <sup>25</sup> \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500
ER Cont	\$32,500	\$36,900	\$100,000
EE Cont	\$25,000	\$3,000	\$5,000
ER %	57%	92%	95%

# Plan Comparisons

	25% SEP	3% Match SIMPLE	401(k) PS	DB
Owner <sup>57</sup> \$100,000	\$25,000	\$19,500	\$63,500	\$256,634
Spouse <sup>57</sup> \$30,000	\$7,500	\$17,400	\$36,500	\$80,514
Jack <sup>30</sup> \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500	\$27,566
Jill <sup>25</sup> \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500	\$18,913
ER Cont	\$32,500	\$36,900	\$100,000	\$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 <sup>57</sup> \$100,000	\$25,000	\$19,000	\$62,000	\$256,634	\$260,277 +26,000
Spouse <sup>57</sup> \$30,000	\$7,500	\$16,900	\$36,000	\$80,514	\$81,823 +26,000
Jack <sup>30</sup> \$50,000	\$12,500	\$1,500 +13,000	\$2,500 +19,000	\$27,566	\$5,550 +19,500
Jill <sup>25</sup> \$50,000	\$12,500	\$1,500 +13,000	\$2,500 +19,000	\$18,913	\$5,550 +19,500
ER Cont	\$32,500	\$35,900	\$98,000	\$337,114	\$394,100
EE Cont	\$25,000	\$3,000	\$5,000	\$46,479	\$11,100
ER %	57%	92%	95%	88%	97%



# *Cash Balance Plans*

- A DB Plan that looks like a DC Plan.
- Key Features: Individual Accounts, Annual Employer Contribution, Interest Credit, Portable Accounts & Actuary.
- Disadvantages
- Client's Commitment:
  - Annual Contributions
  - Plan in existence at least 5 years
  - Vesting 100% after 3 service years

# PBGC

- The Pension Benefit Guaranty Corporation was established by ERISA as a federal corporation.
- Financed largely by insurance premiums paid by companies that sponsor pension plans.
- All defined benefit plans are covered except:
  - Plans covering only owners,
  - Professional employer plans covering fewer than 26 employees,
  - Governmental, Non-electing church, and Indian tribal plans.
- Professional Service Employer includes Physicians, Dentists, Chiropractors, Attorneys, CPAs, Public Engineers, Architects, Draftsmen, Actuaries and others listed in ERISA §4021(c)(2)(B).

# *Changes due to COVID-19*

- CARES ACT
  - Whose an “eligible” participant
  - Coronavirus-Related Loans
  - No Waiver of DB RMDs
  - Delay in 2020 Funding Obligations
- Freezing Defined Benefit Plan
- Spousal Consent Relief

# *New Plan Set Up Deadlines*

## SECURE Act

- New Defined Benefit and Profit Sharing Plans
- New Safe Harbor Plan
- Adding Safe Harbor Provisions
  - Safe Harbor Match
  - 3% Non-Elective Safe Harbor
  - 4% Non-Elective Sage Harbor

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# *Need More Information*

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