

NH HICKS

Legal and Pension Consultants

Qualified Plans in Today's Environment

Defined Benefit Plans

2021

Experience Counts



Design Highlights

- Eligibility – 30% class exclusion
- Include Spouse
- Defined Benefit 40-60-5 Rule
- General Assumptions
- Overfunding/Underfunding
- Defined Benefit Contributions
- One Person DB Plan
- Add Uni(k)
- Combination Plans
- Plan Comparisons
- Cash Balance Plans
- PBGC
- New Plan Set Up Deadlines
- Tax Credit for New Plans

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	58,677	77,634	89,280	89,280	89,280	89,280	89,280	89,280	89,280
34	63,368	85,396	98,206	98,206	98,206	98,206	98,206	98,206	98,206
36	68,433	93,930	108,021	108,021	108,021	108,021	108,021	108,021	108,021
38	73,903	103,308	118,806	118,806	118,806	118,806	118,806	118,806	118,806
40	79,811	113,614	130,656	130,656	130,656	130,656	130,656	130,656	130,656
42	86,745	124,939	143,681	143,681	143,681	143,681	143,681	143,681	143,681
44	94,803	137,403	158,012	158,012	158,012	158,012	158,012	158,012	158,012
46	103,341	151,117	173,784	173,784	173,784	173,784	173,784	173,784	173,784
48	112,386	166,211	191,142	191,142	191,142	191,142	191,142	191,142	191,142
50	121,968	182,821	210,244	210,244	210,244	210,244	210,244	210,244	210,244
52	132,115	201,108	231,275	231,275	231,275	231,275	231,275	231,275	231,275
54	142,859	221,328	254,527	254,527	254,527	254,527	254,527	254,527	254,527
56	154,234	243,667	280,217	280,217	280,217	280,217	280,217	280,217	280,217
58	150,124	250,207	287,095	287,095	287,095	287,095	287,095	287,095	287,095
60	144,414	240,690	276,794	276,794	276,794	276,794	276,794	276,794	276,794
62	138,439	230,732	299,497	299,497	299,497	299,497	299,497	299,497	299,497
64	132,162	220,270	296,832	328,443	328,443	328,443	328,443	328,443	328,443

- 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	\$290,000	\$225,000
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	290,000	\$225,000	\$218,000	\$21,750	\$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	---

\$40,750 more for owner, while \$31,000 less for employees =
\$71,750 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 ⁵⁷ \$100,000	\$25,000	\$3,000 +16,500
Spouse ⁵⁷ \$30,000	\$7,500	\$900 +16,500
Jack ³⁰ \$50,000	\$12,500	\$1,500 +13,500
Jill ²⁵ \$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 ⁵⁷ \$100,000	\$25,000	\$19,500	\$38,500 +26,000
Spouse ⁵⁷ \$30,000	\$7,500	\$17,400	\$10,500 +26,000
Jack ³⁰ \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500
Jill ²⁵ \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500
ER Cont	\$32,500	\$36,900	\$101,000
EE Cont	\$25,000	\$3,000	\$5,000
ER %	57%	92%	95%

Plan Comparisons

	25% SEP	3% Match SIMPLE	401(k) PS	DB
Owner ⁵⁷ \$100,000	\$25,000	\$19,500	\$64,500	\$256,634
Spouse ⁵⁷ \$30,000	\$7,500	\$17,400	\$36,500	\$80,514
Jack ³⁰ \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500	\$27,566
Jill ²⁵ \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500	\$18,913
ER Cont	\$32,500	\$36,900	\$101,000	\$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 ⁵⁷ \$100,000	\$25,000	\$19,000	\$64,500	\$256,634	\$260,277 +26,000
Spouse ⁵⁷ \$30,000	\$7,500	\$16,900	\$36,500	\$80,514	\$81,823 +26,000
Jack ³⁰ \$50,000	\$12,500	\$1,500 +13,000	\$2,500 +19,500	\$27,566	\$5,550 +19,500
Jill ²⁵ \$50,000	\$12,500	\$1,500 +13,000	\$2,500 +19,500	\$18,913	\$5,550 +19,500
ER Cont	\$32,500	\$35,900	\$101,000	\$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).

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

The SECURE Act

SECURE Act

- Increased Tax Credit for New Plans
- RMD Age increased to 72
- Long-term, part-time workers
- Birth/adoption penalty free withdrawals

Design Highlights

- Eligibility – 30% class exclusion
- Include Spouse
- Defined Benefit 40-60-5 Rule
- General Assumptions
- Overfunding/Underfunding
- Defined Benefit Contributions
- One Person DB Plan
- Add Uni(k)
- Combination Plans
- Plan Comparisons
- Cash Balance Plans
- PBGC
- New Plan Set Up Deadlines
- Tax Credit for New Plans

Need More Information

Tom Hicks

(530) 521-7024

TomKHicks@nhhicks.com

Debbie Rath

(530) 891-4975

drath@nhhicks.com

Samantha Rath

(530) 891-4975

srath@nhhicks.com

www.nhhicks.com

NH HICKS

Legal and Pension Consultants

Experience Counts