NH HICKS

Legal and Pension Consultants

QUALIFIED PLANS IN TODAY'S ENVIRONMENT

Defined Benefit Plans

2021

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 250 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 retirement plans for our clients primarily throughout California and the western United States. 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, expanded 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, FAQs and other vital information.

Contact us at:

Tom Hicks	James Hicks	Debbie Rath	Samantha Nethington
(530) 521-7024	(530) 521-6415	(530) 891-4975	(530) 891-4975

PLAN DESIGN HIGHLIGHTS
FOR
DEFINED BENEFIT PLANS

- 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

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	$290,000	$261,370	$2,040,545
Employee	21	$24,000	$3,907	$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. 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 $19,500 ($26,000 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	$287,655	$295,241
Spouse	57	30,000	92,380	92,998
Employee 1	30	50,000	40,680	6,075
Employee 2	25	50,000	29,029	6,075

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 $19,500 pre-tax into a separate 401(k) Profit Sharing Plan ($26,000 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 2021
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	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
66	125,515	209,192	292,868	357,213	359,728	359,728	359,728	359,728	359,728
68	116,970	194,951	272,930	350,910	393,746	393,746	393,746	393,746	393,746
70	108,228	180,380	252,531	324,683	393,360	430,923	430,923	430,923	430,923

For Owner-Only Plans increase the amount shown by 1.25 due to the granting of past service.

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.

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.

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 $58,000 ($64,500 if age 50+) annually, contributions in a DB plan can go as high $300,000 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 $130,000 contribution.
  - 50 year old making $90,000 can make a $210,000 contribution.
  - 60 year old making $90,000 can make a $275,000 contribution.

  If you need an estimate, view our Defined Benefit Contribution. We will prepare a proposal reflecting maximum contributions available at no cost.

- **Access to Your Money.** You can borrow from your account balance, and the loan is tax free, if 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?

	DB Only	DB & 401(k)
• Installation/Documents: (Takeover - no charge)	$1,300	$1,700
• Annual Administration:	$1,700	$2,100

PLAN TYPE COMPARISONS

(For plan years beginning in 2021)

Assumptions			Plan Types				
Participants	Age	Compensation	25% SEP	3% Match SIMPLE	401(k) PS	DB	DB Combo
Owner	57	$100,000	$25,000	$3,000 + 16,500	$38,500 + 26,000	$256,634	$260,277 + 26,000
Spouse	57	30,000	7,500	900 + 16,500	10,500 + 26,000	80,514	81,823 + 26,000
Employee 1	30	50,000	12,500	1,500 *(0 – 13,500)*	2,500 *(0 - 19,500)*	27,566	5,550 *(0 - 19,500)*
Employee 2	25	50,000	12,500	1,500 *(0 - 13,500)*	2,500 *(0 - 19,500)*	18,913	5,000 *(0 - 19,500)*
Contribution To Owners			$32,500	$36,900	$101,000	$337,114	$394,100
Contribution To Employees			$25,000	$3,000	$5,000	$46,479	$11,100
Owners %			57%	92%	95%	88%	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.

New Plan Set Up Deadlines

The **Setting Every Community Up for Retirement Enhancement (SECURE) Act** was passed in December 2019 and made policy changes that will impact the adoption of new defined contribution plans and defined benefit plans. Here are the new plan deadlines for 2020 and beyond.

Defined Benefit or Profit Sharing Plans:
Due date of business tax return plus extensions

An employer can now set up a plan, and make deductible contributions, until the due date of the employer's 2020 tax return plus extensions. It is important to note that this only applies to employer contributions, as it is not possible to make 401(k) deferrals retroactively to the previous year. This extra time provides a great opportunity for companies to achieve some additional tax savings right at the time they realize it the most …. as they are looking at a large tax payment due to the IRS.

Start-Up Safe Harbor Plan: October 1st

This deadline has not changed. If an employer does not currently sponsor a retirement plan and is interested in starting a safe harbor 401(k) plan, the deadline is 90 days before year end. That means October 1, 2020 to install a new safe harbor plan for this year.

Adding Safe Harbor Provisions for 2020: Dates vary

If the client already sponsors a 401(k) plan and is looking to add a safe harbor provision, there are now different deadlines depending on the safe harbor provisions.

- Safe Harbor Match: The deadline to add a safe harbor match remains unchanged at 30 days before the start of the plan year. An employer has until December 1, 2020 to add a safe harbor match for 2021.

- 3% Non-Elective Safe Harbor: A plan sponsor has until 30 days before the end of the plan year to add a 3% non-elective safe harbor provision. That is December 1, 2020 for calendar year plans.

- 4% Non-Elective Safe Harbor: If the plan sponsor misses the 3% safe harbor deadline above, there is a new option available. They can now add a safe harbor non-elective provision up to the last day of the following plan year if the plan sponsor is willing to contribute 4% of pay instead of the 3%. So, they have until December 31, 2021 to add a 4% non-elective safe harbor provision to their plan for 2020.

We think the SECURE Act offers qualified plan opportunities and a little reprieve from the effects of potential procrastination. NH Hicks is always here to help our advisors and clients

The SECURE Act

As part of a larger government spending package, which was signed into law on December 20, 2019, Congress included provisions from the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The act reflects policy changes to defined contribution plans, defined benefit pension plans, individual retirement accounts (IRAs), and 529 college savings accounts. Most provisions in the law go into effect on January 1, 2020.

Here is a summary of some key provisions of the SECURE Act:

Required minimum distributions (RMDs) now begin at age 72
Americans are working longer and will no longer be required to withdraw assets from retirement plans and IRAs at age 70½. RMDs now begin at age 72 for individuals who turn 70½ in the calendar year 2020 and later.

IRA contributions beyond age 70½
As Americans live longer, an increasing number are continuing to work past their traditional retirement age. Under the SECURE Act, employees can continue to contribute to their traditional IRAs past age 70½ if they are still working. That means the rules for traditional IRAs will align more closely with retirement plans.

Long-term, part-time workers will be able to join the company 401(k) plan
Up until now, if an employee worked less than 1,000 hours per year, the employee was generally ineligible to participate in the company's 401(k) plan. Except in the case of collectively bargained plans, the law now requires employers maintaining a 401(k) plan to offer a plan to any employee who worked more than 1,000 hours in one year, or 500 hours over 3 consecutive years. Employer contributions are not required for these employees even if the plan is top-heavy. Although employers need to start tracking these part-time employees, the earliest entry date of these employees will be January 1, 2024.

Increased tax credit for starting a retirement plan, up to $5,000
The new law provides an increased start-up retirement plan credit for smaller employers of $250 per non-highly compensated employees eligible to participate in a plan at work (minimum credit of $500 and maximum credit of $5,000). This credit would apply to small employers with up to 100 employees over a 3-year period beginning after December 31, 2019 and applies to SEP, SIMPLE, defined contribution plans, and defined benefit plans.

$5,000 withdrawal per parent penalty-free upon the birth/adoption of a child
The new law permits an individual to take a "qualified birth or adoption distribution" of up to $5,000 from an applicable defined contribution plan, such as a 401(k) or an IRA. The 10% early withdrawal penalty will not apply to these withdrawals, and you can repay them as a rollover contribution to an applicable eligible defined contribution plan or IRA.

This is a summary of some of the key provisions that affect retirement plans. If you need more information, please contact us at NH Hicks.

NH HICKS

FEES FOR SERVICES

<u>401(k) Profit Sharing Plans:</u>
Installation/Documents (takeover no charge) ....$1250 + $10 per eligible participant
Administration ....$1350 + $30 per eligible participant

<u>Defined Benefit Plans:</u>
Installation/Documents (takeover no charge) ....$1350 + $10 per eligible participant
Administration including actuarial certification.................................$2200 + $50 per eligible participant

<u>DB/DC Combination Plans:</u>
Installation/Documents (takeover no charge) ....$2700 + $20 per eligible participant
Administration including actuarial certification.................................$3650 + $50 per eligible participant

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

<u>Owner Only –401(k):</u>
Installation/Documents (takeover no charge) $550
Administration (assets less than $250,000).....................................$300
Administration (assets $250,000 and more)....................................$550

<u>Owner Only – Defined Benefit Plan:</u>
Installation/Documents (takeover no charge) $1300
Administration including actuarial certification.................................$1700

<u>Owner Only – DB/DC Combination Plans:</u>
Installation/Documents (takeover no charge) $1700
Administration including actuarial certification.................................$2100

<u>Special Transactions:</u>

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
Cycle 3 Restatements (Owner only $550).......................................$950

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

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

5-19-2021