

NH HICKS

Legal and Pension Consultants

Qualified Plans in Today's Environment

Defined Contribution Plans

2021

Experience Counts



Design Highlights

- Eligibility – 30% class exclusion
- Include Spouse
- New comparability plans – older owners
- 401(k) testing – safe harbors
- Uni(k) vs. SEP
- Defined Benefit 40-60-5 Rule
- Roth 401(k)
- Fee Disclosure and Offsets
- New Plan Set Up Deadlines
- Tax Credit for New Plans
- DC Restatements
- MEPs/PEPs
- CalSavers

DEFINED BENEFIT

DEFINED CONTRIBUTION

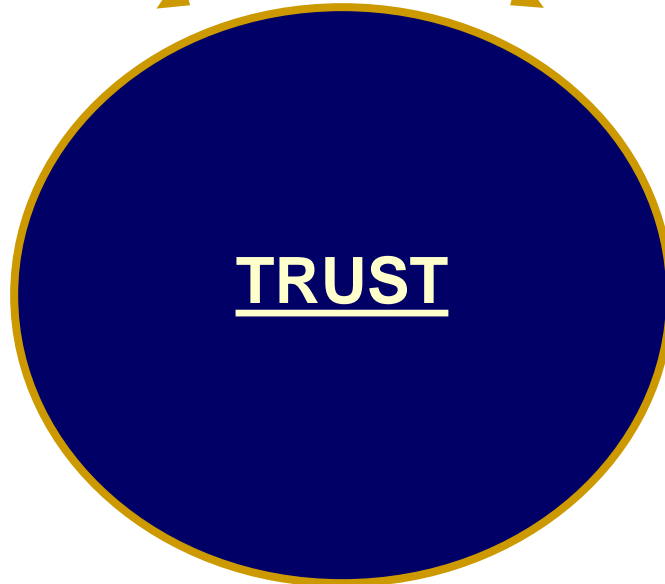
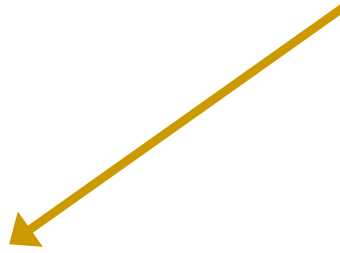
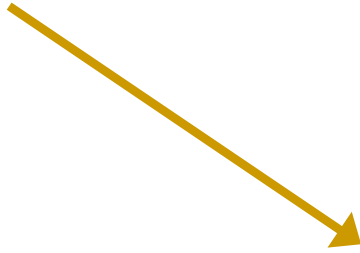
TRUST

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

401(k)

MATCH
401(m)

PROFIT
SHARING



TRUST

***DISCRIMINATION
TESTING***

***ELIGIBILITY
ENTRY
VESTING***

SAFE HARBOR

ALLOCATION METHODS



TRUST

ELIGIBILITY

- Age 21
- 1 Year
- 1000 hours a year
- 500 hours in 3 years
- Union Employees
- Non Resident Aliens
- 30% NHC job class

ENTRY DATES

VESTING

Distributions



TRUST

100% VESTED UPON

- Death
- Retirement
- Disability

TERMINATIONS

LOANS

HARDSHIPS

Table of Limits

	2021	2022
<u>COMPENSATION LIMIT</u> plan year beginning	290,000	305,000
<u>DC ANNUAL ADDITION LIMIT</u> plan year ending	58,000	61,000
<u>401(k) DEFERRAL LIMIT</u> calendar year	19,500	20,500
<u>CATCH-UP DEFERRAL LIMIT</u> calendar year	6,500	6,500
<u>DB ANNUAL BENEFIT LIMIT</u>	230,000	245,000
<u>HIGHLY COMPENSATED EMPLOYEE</u> Compensation definition only required to be met in prior plan year		
1) Over 5% owner		
2) Any employee (may limit to top 20%):	130,000	135,000
3) Spouse or linear relation		
<u>KEY EMPLOYEE</u> Employee is key if meets definition in current plan year		
1) Over 5% owner		
2) Over 1% owner:	150,000	150,000
3) Officer (count at least 1):	185,000	200,000
4) Spouse or linear relation		
<u>TAXABLE WAGE BASE</u>	142,800	147,000

Allocation Methods



TRUST

Profit Sharing

0-25%

eligible compensation

ALLOCATION

- Proportional
- SS Integration
- Age Weighted
- New Comparability

Allocation Comparisons

Assumptions		25% Salary
Age	Salary	Proportional
*55	\$50,000	\$12,500
50	50,000	12,500
*45	50,000	12,500
40	50,000	12,500
35	50,000	12,500
30	50,000	12,500
25	50,000	12,500
	\$350,000	\$87,500

Allocation Comparisons

Assumptions		25% Salary	Age
Age	Salary	Proportional	Weighted
*55	\$50,000	\$12,500	\$31,098
50	50,000	12,500	20,681
*45	50,000	12,500	13,754
40	50,000	12,500	9,147
35	50,000	12,500	6,083
30	50,000	12,500	4,046
25	50,000	12,500	2,691
	\$350,000	\$87,500	\$87,500

Allocation Comparisons

Assumptions		25% Salary	Age	New
Age	Salary	Proportional	Weighted	Comp
*55	\$50,000	\$12,500	\$31,098	\$28,750
50	50,000	12,500	20,681	6,000
*45	50,000	12,500	13,754	28,750
40	50,000	12,500	9,147	6,000
35	50,000	12,500	6,083	6,000
30	50,000	12,500	4,046	6,000
25	50,000	12,500	2,691	6,000
	\$350,000	\$87,500	\$87,500	\$87,500

Required to pass Average Benefits Test

401(k)

MATCH
401(m)

PROFIT
SHARING

100% up to \$19,500
(age 50 - \$6,500 catch-up)

Roth 401(k)

***DISCRIMINATION
TESTING***

- Top-heavy
- ADP Test

***ELIGIBILITY
ENTRY
VESTING***

TRUST

SAFE HARBOR

ALLOCATION METHODS

Discrimination Tests

Top-heavy

40%- non-key

60%+ key

ADP Test

Typically NHC avg. + 2% = HC max avg.

NHC %

5

10

0

5

5% avg. + 2% = 7% max HC avg.

Prior year method on first plan year

3% assump. + 2% = 5%

No Joy Corporation

Employee	Compensation	Deferral
Orville	\$100,000	\$19,500 (19.5%)
Wilbur	100,000	3,500 (3.5%)
(23% / 2 = 11.5% HC Average)		
Richthofen	\$50,000	\$5,000 (10%)
Amelia	50,000	0 (0%)
Doolittle	50,000	2,500 (5%)
(15% / 3 = 5% NHC Average)		
NHC Average 5% + 2 = 7% FAIL		

Top-Heavy

No Joy Corporation

Employee	Compensation	Deferral	3% PS
Orville	\$100,000	\$19,500 (19.5%)	\$3,000
Wilbur	100,000	3,500 (3.5%)	<u>3,000</u>
(23% / 2 = 11.5% HC Average)			\$6,000
Richthofen	\$50,000	\$5,000 (10%)	\$1,500
Amelia	50,000	0 (0%)	1,500
Doolittle	50,000	2,500 (5%)	<u>1,500</u>
(15% / 3 = 5% NHC Average)			\$4,500
NHC Average 5% + 2 = 7% FAIL			

EMPLOYER REQUIRED \$4,500 - \$10,500

401(k)

MATCH
401(m)

PROFIT SHARING

4% Match

3% Contribution

100% up to \$19,500
(age 50 - \$6,500 catch-up)

DISCRIMINATION TESTING

- ADP Test
- Top-heavy

***ELIGIBILITY
ENTRY
VESTING***

TRUST

ALLOCATION METHODS

SAFE HARBOR

- 100% VESTED
- NEW PLANS MUST EXIST FOR AT LEAST 90 DAYS
- TERMINATED PARTICIPANTS RECEIVE CONTRIBUTION

4% Match vs. 3% PS Safe Harbor

Compensation		401(k)	Match 4%	ER Cost Total
Owner	\$290,000	\$19,500	\$11,600	\$31,100
Spouse	20,000	19,500	500	20,000
EE1	50,000	2,000	2,000	2,000
EE2	50,000	2,000	2,000	2,000
EE3	50,000	2,000	2,000	2,000

4% Match vs. 3% PS Safe Harbor

Compensation		401(k)	Match 4%	ER Cost Total
Owner	\$290,000	\$19,500	\$11,600	\$31,100
Spouse	20,000	19,500	500	20,000
EE1	50,000	2,000	2,000	2,000
EE2	50,000	2,000	2,000	2,000
EE3	50,000	2,000	2,000	2,000

Compensation		401(k)	3% Safe Harbor	ER Cost Total
Owner	\$290,000	\$19,500	\$8,700	\$28,200
Spouse	20,000	19,500	500	20,000
EE1	50,000	2,000	1,500	1,500
EE2	50,000	2,000	1,500	1,500
EE3	50,000	2,000	1,500	1,500

4% Match vs. 3% PS Safe Harbor

Compensation		401(k)	Match 4%	ER Cost Total
Owner	\$290,000	\$19,500	\$11,600	\$31,100
Spouse	20,000	19,500	500	20,000
EE1	50,000	2,000	2,000	2,000
EE2	50,000	2,000	2,000	2,000
EE3	50,000	2,000	2,000	2,000

Compensation		401(k)	3% Safe Harbor	Profit Sharing New Comp	ER Cost Total
Owner	\$290,000	\$19,500	\$8,700	\$17,400 (6%)	\$45,600
Spouse	20,000	19,500	500	0 (0%)	20,000
EE1	50,000	2,000	1,500		1,500
EE2	50,000	2,000	1,500		1,500
EE3	50,000	2,000	1,500		1,500

Gateway Test

4% Match vs. 3% PS Safe Harbor

Compensation		401(k)	Match 4%	ER Cost Total
Owner	\$290,000	\$19,500	\$11,600	\$31,100
Spouse	20,000	19,500	500	20,000
EE1	50,000	2,000	2,000	2,000
EE2	50,000	2,000	2,000	2,000
EE3	50,000	2,000	2,000	2,000

Compensation		401(k)	3% Safe Harbor	Profit Sharing New Comp.	ER Cost Total
Owner	\$290,000	\$19,500	\$8,700	\$29,800 (10.2%)	\$58,000
Spouse	20,000	19,500	500	0 (0%)	20,000
EE1	50,000	2,000	1,500	700 (1.4%)	2,200
EE2	50,000	2,000	1,500	700 (1.4%)	2,200
EE3	50,000	2,000	1,500	700 (1.4%)	2,200

SEP vs. UNI(k)

Comp.	25% SEP	25% PS
\$232,000	\$58,000	\$58,000
Total	\$58,000	\$58,000

\$232,000 Break Even SEP V. 401(k) with \$58,000 Contribution

SEP vs. UNI(k)

Comp.	25% SEP	25% PS + 401(k)
\$100,000	\$25,000	\$25,000 +26,000
Total	\$25,000	\$51,000

SEP vs. UNI(k)

Comp.	25% SEP	25% PS + 401(k)
\$100,000	\$25,000	\$25,000 +26,000
\$30,000 Spouse	\$7,500	\$7,500 +26,000
Total	\$32,500	\$84,500

SEP vs. UNI(k) vs. DB

Comp.	25% SEP	25% PS + 401(k)	DB
\$100,000	\$25,000	\$25,000 +26,000	\$212,000
\$30,000 Spouse	\$7,500	\$7,500 +26,000	\$42,000
Total	\$32,500	\$84,500	\$254,000

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	\$32,500
EE Cont	\$25,000
ER %	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	\$19,500	\$64,500	\$256,634	\$260,277 +26,000
Spouse ⁵⁷ \$30,000	\$7,500	\$17,400	\$36,500	\$80,514	\$81,823 +26,000
Jack ³⁰ \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500	\$27,566	\$5,550 +19,500
Jill ²⁵ \$50,000	\$12,500	\$1,500 +13,500	\$2,500 +19,500	\$18,913	\$5,550 +19,500
ER Cont	\$32,500	\$36,900	\$101,000	\$337,114	\$394,100
EE Cont	\$25,000	\$3,000	\$5,000	\$46,479	\$11,100
ER %	57%	92%	95%	88%	97%

New Plan Set Up Deadlines

SECURE Act

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

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

DC Restatements

- Called “Cycle 3” restatements
- Required by the IRS
- Deadline July 31, 2022
- Our Fees \$950 (\$550 owner only)

Design Highlights

- Eligibility – 30% class exclusion
- Include Spouse
- New comparability plans – older owners
- 401(k) testing – safe harbors
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- Defined Benefit 40-60-5 Rule
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Need More Information

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