Employer

CalSavers vs. 401(k) Plan

For 2022

NH HICKS

LEGAL AND PENSION CONSULTANTS

Employer

Summary Illustration for 401(k) Plan

Employer is known for the exceptional quality of their products and high level of customer satisfaction. They provide high-end window and door solutions for residential and commercial projects with locations in California. The company, taxed as an S-Corporation, and is fully owned by Mr. Owner. He currently does not sponsor a retirement plan but is interested in a 401(k) to meet the CalSavers exemption.

2022

CalSavers

California private employers with 5 or more employees, who do not already sponsor a retirement plan, may voluntarily enroll in the CalSavers Retirement Savings Program (CalSavers). Employers that do not voluntarily enroll *must* enroll in CalSavers by June 30, 2022.

- CalSavers requires employees at least age 18 and receiving a Form W-2 to be automatically enrolled in the CalSavers program after a 30 day period.
- Each CalSavers account is a Roth IRA, so each savings amount must be within the Roth IRA contribution limits set by the federal government. In 2022, the contribution limits are $6,000 per year to a Roth IRA or $7,000 per year when you are age 50 or older.
- The default is an employee contribution of 5% of their wages subject to income tax withholding, automatically increasing each year by 1% to a maximum contribution level of 8%.
- Employer contributions currently are prohibited in this program.
- Eligible Employers who enroll in CalSavers will provide basic employee roster information to CalSavers. CalSavers will then contact employees directly to notify them of the program and to instruct them about how to enroll or opt-out online.
- Once an Eligible Employer has enrolled in CalSavers, their obligations are limited to deducting and remitting each enrolled employee’s contributions each pay period, and to adding new eligible employees within 30 days of hire.

The website, CalSavers.com, will answer your questions and help you start this program should you choose.

Instead of this program, you may want to consider a 401(k) plan. We have discussed your 401(k) options available below.

401(k) Plans

The plan provisions used for eligibility used in this proposal is also in most 401(k) plans:

- Age 21.
- One year of employment in which the employee works at least 1000 hours.
- Semi-annual entry dates of January 1 and July 1 after the eligibility requirement is met.

Adopting a 401(k) plan with a safe harbor employer contribution, will allow the Owner to defer the maximum 401(k) contribution and pass the plan's discrimination tests. Without a safe harbor contribution, the Owner's 401(k) contributions will depend upon how much the employees contribute. More information about this test and others can be found on the General Overview of 401(k) Plans that follows.

There are two types of employer safe harbor contributions: 4% safe harbor match or 3% non-elective safe harbor contribution. We have discussed and illustrated the contributions below.

Illustration A – 4% Match Safe Harbor Plan

Participant	Comp	401(k)	Match	Total
Owner	**$120,000**	**$27,000**	**$4,800**	**$31,800**
Employees	**$549,920**	**$21,997**	**$21,997**	**$43,994**
Grand Total	**$669,920**	**$48,997**	**$26,797**	**$75,794**

- The Owner is shown deferring the 2022 maximum $27,000 ($20,500 plus $6,500 catch-up contribution for participants age 50 and older).
- We've assumed **all employees defer 4%** of compensation to illustrate the maximum matching contribution.
- All participants contributing will receive a matching contribution – 100% up to 4% of compensation.
- This plan is designed with a "safe harbor" matching contribution, which will enable the plan to automatically pass discrimination tests. This employer contribution is 100% vested. If the employees do not elect to contribute, the Owner can still contribute the maximum 401(k), receive the match, and the plan will still pass all discrimination tests.
- An additional discretionary employer contribution could be given as a profit sharing contribution.
- An illustration showing all participants and their contributions follows.

Illustration B – 3% Non-Elective Safe Harbor Plan

Participan t	Comp	401(k)	3% SH	PS	Total
Owner	$120,000	$27,000	$3,600	$7,200	$37,800
Employees	$549,920	$0	$16,498	$0	$16,498
Grand Total	$669,920	$27,000	$20,098	$7,200	$54,298

- The Owner is shown deferring the 2022 maximum.
- All participants receive a 3% of compensation safe harbor contribution, even if they do not contribute or terminate during the plan year. This “safe harbor” contribution will enable the plan to automatically pass discrimination tests and is 100% vested.
- The profit sharing contribution (PS) shown is allocated by classes: the Owner receives 6% of compensation and the employees do not share in this contribution.
- An illustration showing all participants and their contributions follows.

Illustration C – 3% Non-Elective Safe Harbor Plan Plus

Participant	Comp	401(k)	3% SH	PS	Total
Owner	$120,000	$27,000	$3,600	$36,900	$67,500
Employees	$549,920	$0	$16,498	$10,998	$27,496
Grand Total	$669,920	$27,000	$20,098	$47,898	$94,996

- The Owner is shown deferring the 2022 maximum.
- All participants receive a 3% of compensation safe harbor contribution.
- The profit sharing contribution (PS) shown is allocated by classes: Owner receives 30.75% of compensation and the employees receive 2%.
- The Owner is receiving the 2022 annual maximum of all contributions totaling $67,500.
- An illustration showing all participants and their contributions follows.

Fees

Installation of 401(k) Plan

Plan Document, forms, and SPD	$1,200

Annual Administration

Base Fee	$1,350
Per Participant Fee (8 @ $30)	240
	$1,590

There are three ways to reduce your fees.

1. It is our policy here at NH Hicks to **apply all third party payments** we received from investment companies to our client's annual administration fees, any other open invoices or used to credit their future fees.
2. There is a tax credit for employers to offset the startup cost and the cost of educating employees about the new plan. The credit is limited to 50% of the qualified start-up costs paid or incurred during the tax year, up to a maximum of $1,750 for each of the first three years.
3. Join our Client Referral Program. Give us a name and contact information for someone who needs our services and deduct $50 off your fees now. We will contact the client and if they decide to use our services, we will credit an additional $250 on your account.

New Plan Steps

Here are the steps to install the 401(k) plan.

1. Authorization Form sent to client.
2. Client to review and sign authorization form, then return to us by email or fax.
3. We prepare plan documents including form SS-4 (Application for Employer Identification Number) for the plan's trust.
4. Client receives all documents and administrative procedures.

We appreciate this opportunity to propose our services.
Respectfully submitted,

Debbie Rath
Consultant

Employer
401(k) Plan Illustration
For the Plan Year Ending December 31, 2022

		Illustration A			Illustration B				Illustration C			
		4% Safe Harbor Match			3% Non-Elective Safe Harbor				3% Non-Elective Safe Harbor			
	Comp	**401(k)**	**Match**	**Total**	**401(k)**	**3% SH**	**PS**	**Total**	**401(k)**	**3% SH**	**PS**	**Total**
Owner	120,000	27,000	4,800	31,800	27,000	3,600	7,200	37,800	27,000	3,600	36,900	67,500
Owner	**120,000**	**27,000**	**4,800**	**31,800**	**27,000**	**3,600**	**7,200**	**37,800**	**27,000**	**3,600**	**36,900**	**67,500**
Employee 1	49,920	1,997	1,997	3,994	0	1,498	0	1,498	0	1,498	998	2,496
Employee 2	85,000	3,400	3,400	6,800	0	2,550	0	2,550	0	2,550	1,700	4,250
Employee 3	60,000	2,400	2,400	4,800	0	1,800	0	1,800	0	1,800	1,200	3,000
Employee 4	100,000	4,000	4,000	8,000	0	3,000	0	3,000	0	3,000	2,000	5,000
Employee 5	100,000	4,000	4,000	8,000	0	3,000	0	3,000	0	3,000	2,000	5,000
Employee 6	45,000	1,800	1,800	3,600	0	1,350	0	1,350	0	1,350	900	2,250
Employee 7	110,000	4,400	4,400	8,800	0	3,300	0	3,300	0	3,300	2,200	5,500
Employee Group	**549,920**	**21,997**	**21,997**	**43,994**	**0**	**16,498**	**0**	**16,498**	**0**	**16,498**	**10,998**	**27,496**
Grand Totals	**669,920**	**48,997**	**26,797**	**75,794**	**27,000**	**20,098**	**7,200**	**54,298**	**27,000**	**20,098**	**47,898**	**94,996**

NH HICKS
Legal and Pension Consultants
www.nhhicks.com

Employer 401(k) Plan
Proposal Date: 6-1-2022

Our Services

Installation fee is a one-time fee to establish the plans. We prepare all documents including:

- Proposal recommending different plan designs (All proposals are prepared at no cost),
- Plan and Trust Documents and Loan Policy,
- Required employee booklets “Summary Plan Description, and
- Administration Manual with the forms and procedures necessary to administer the plan.

Annual administration services include, but are not limited to:

- The reconciliation of employee census and investments statements,
- Performing all necessary discrimination tests,
- Calculating and allocating all contributions, earnings, and applicable forfeitures,
- Preparation of reports for client and participants, and
- All governmental required forms and participant disclosures.

Our Firm

NH HICKS is fee only, third party pension administration and consulting firm that does not handle any investments or insurance. Founded in 1992, our company administers over 1,000 qualified retirement plans primarily throughout California, Washington, Oregon, Colorado, Utah, and Idaho.

We provide plan document installation, consultation, contribution calculations, compliance testing, and IRS and DOL reporting for qualified retirement. We have developed a unique administration system that is designed to ensure superior quality while keeping costs competitive. Each client is assigned an administrator and a consultant. Our administrators have over 250 years of combined experience. The administrator manages all day-to-day concerns, while the consultant is available for working with the client and advisors to ensure each plan design is the best fit for the company’s needs.

We value our client relationships and provide experienced personal service dedicated to your needs and concerns. If you have any questions, please contact us.

Respectfully Submitted,

Debbie Rath
Consultant

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OUTLINE
401(k) PROFIT SHARING PLAN
(For plan years beginning in 2022)

401(k) / Roth
100% up to $20,500
(age 50 - $6,500 catch-up)

MATCH
Limit combined with
Profit Sharing

PROFIT SHARING
0-25%
eligible compensation

ALLOCATION
Proportional
SS Integration
New Comparability

ADP TEST
Usually NHC avg. + 2% = HC max avg.

NHC %
5
10
0
5
5% avg. + 2% = 7% max HC avg.

Prior yr. method on first plan yr.
3% assump. + 2% = 5%

TRUST

- Deposits not taxed to employee
- Tax deferred growth
- Protected from creditors

ELIGIBILITY
Age 21
1 yr.
1,000 hrs. yr.
Union emp.
30% NHC job class

VESTING
Effec. DOH or plan start
401(k) – 100%
PS / Match - usually:
0 – 20 – 40 – 60 – 80 - 100%

TOP-HEAVY TEST
Keys own 60% of trust
May require 3% PS contrib.

INDIVIDUAL LIMIT
100% up to $61,000
($67,500 if age 50)

SAFE HARBOR
Auto. pass ADP and top-heavy test
100% vested / includes term. emp. / exist 90 days
1) 3% PS contrib.
2) Match roughly $1 for $1 up to 4% pay (6% max)
3) Auto Enroll with 3½% match (vesting)

COMPENSATION LIMIT
$305,000

GENERAL OVERVIEW
401(k) PROFIT SHARING PLAN
(For plan years beginning in 2022)

A profit sharing 401(k) plan allows contributions through three different methods: employer profit sharing, matching and employee 401(k) salary deferrals.

Profit Sharing
Contrary to what the name may imply contributions to a profit sharing plan are not based on the profitability of the company. Contributions can be allocated based on the amount of each participant's compensation, job class, and/or age. The employer may vary the contributions year to year, ranging from 0 to 25% of eligible compensation, considering no more than $305,000 (2022 index) individually as compensation. The deadline for company contributions is the company's year-end tax return deadline including extensions.

For eligibility, the employer may be more lenient, but not stricter than excluding any employee: under age 21, less than 1 year of service (may be 2 years if 100% vested), under 1,000 hours per year and union employees. There may also be a class exclusion of 30% of the eligible non-highly compensated employees. Generally, the only class excluded is employees not employed on the last day of the plan year. Once an employee meets the eligibility requirements, they will typically enter the plan the first day of the plan year or seventh month (January 1 or July 1).

Employer contributions may come under a vesting schedule. Vesting is the employees' right to the employers' contribution. The most common schedule is 20% per year up to six years and goes 0-20-40-60-80-100%. Vesting may start at date of hire or for new plans, everyone may start at 0% vesting. The forfeitures under vesting may be reallocated to the remaining employees as a percent of compensation or used to reduce employer contributions.

401(k) / ADP Test
Employees may contribute 100% of compensation up to $20,500 (2022 index). All employee contributions will be 100% vested. There are no Federal or State income taxes on 401(k) contributions. The Actual Deferral Percentage (ADP) test must be passed where the average of the non-highly compensated employees is calculated, and the highly compensated employees may contribute a slightly higher average. Either the current or prior years' non-highly compensated average should be elected at plan set up. In 2022, highly compensated is defined as: over 5% owner, compensation over $135,000 in 2021 (may limit to top 20%), or a spouse or linear relation.

Individuals' age 50 or older may contribute an additional catch-up contribution of $6,500 in 2022. This will not be subject to any tests (ADP) or limits.

Employers may amend their plan to allow for Roth 401(k) contributions. These contributions are after-tax and therefore not taxed at retirement. Employees are not limited by the IRA compensation limits. Roth and regular 401(k) contributions are combined for testing and limited to $20,500 ($27,000 if age 50). Separate accounting is required for the Roth 401(k).

Employers may require an Automatic Enrollment provision with a 30 day employee notice. This usually deducts about 3-10% of compensation unless employees opt out within 90 days after the first salary deferral.

Match
The employer may offer a match, to increase participation, which can come under a vesting schedule. For example, 25¢ on the $1 up to 4% of pay. The match may be discretionary, if the employer allows the employees to change their 401(k) election if the match is changed.

Top-Heavy Test
If your plan is top-heavy (the total of the accounts of all key employees exceeds 60% of the total of the accounts of all employees) you are required to make a minimum contribution to non-key employees equal to the lesser of 3% of compensation or the highest contribution percentage rate for a key employee. You may also contribute the same percent for the key employees. This contribution will come under the vesting schedule. If the plan is top-heavy a contribution can be avoided if none of the key employees use the 401(k) in that year.

For 2022, key employee is defined as: over 5% owner, a >1% owner with compensation at or above $150,000, an officer with compensation at or above $200,000, or a spouse or linear relation.

Safe Harbor Options
An employer may choose to make a 100% vested contribution (except autoenroll) to the employees to pass the ADP and top-heavy tests. This must include eligible employees who terminate before the end of the year. New plans must be in place for at least 90 days. These options are:

1) 3% contribution to all eligible non-highly compensated employees (may also include highly compensated). 3% may do “double duty” counting as a basis for new comparability plans based on job class. Final notice due 30 days prior to plan year-end.
2) Match non-highly compensated employees $1 for $1 up to 3%, plus 50¢ on the $1.00 from 3% to 5% (may increase match to $1 for $1 up to 6% of pay and include highly compensated). Final notice due 30 days prior to plan year beginning.
3) Automatic Enrollment provision at 6% of compensation over 4 years and a $1 for $1 match up to 3 ½% with vesting after 2 years. Final notice due 30 days prior to plan year beginning.

Limits
No more than $305,000 (2022 index) may be considered as a basis of compensation. The most an individual may receive from the three sources (profit sharing, match and 401(k)) is 100% of compensation up to $61,000 ($67,500 if age 50).

The plan is still a profit sharing plan that has matching and 401(k) provisions within. Therefore, the employer match and profit sharing (401(k) excluded) plan contributions are limited to 25% of eligible compensation. Since this is an average of all employer contributions (401(k) excluded), some individuals may receive 100% while the total employer contribution is still under the 25% limit.

Investments
The plans are self-trusteed so the employer can choose any legal non-foreign investment. Typically, the employer will control the profit sharing contribution as it comes under the vesting schedule, and therefore may not yet be owned by the employee.

The employees usually control their own 401(k) contribution. Each employee can have their own segregated account where they can obtain their balance at any time as well as trade the account within a menu of funds. Employees should be given the choice of at least four investments, ranging from conservative to aggressive.

If you have any questions or would like to meet with a plan consultant, please call NH HICKS.