

HICKS NOTES

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(800) 310-4975 | www.nhhicks.com

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By Tom Hicks, Attorney At Law

Defined Benefit Plans Need Attention Now

Defined Benefit Plans are a great way for small business owners to get bigger tax deductions than regular 401(k) plans. Knowing the deadlines and issues involved in setting up and maintaining these plans will help you advise your clients on the benefits of these plans.

The SECURE Act, passed in December 2019, allows a business to adopt a retirement plan up until they file their tax returns, plus extensions. This gives your clients the option to set up a Defined Benefit Plan (DB) for 2022 until September 15, 2023.

Many small and owner-only businesses, such as real-estate agents, software developers, contractors, and others, had a good year in 2022 and may find that they owe tax dollars as they are completing their 2022 tax returns. A defined benefit plan (DB) may be the solution they are looking for.

Many are concerned with the funding and flexibility issues of defined benefit plans, however there is a certain flexibility in these plans that many do not know about. This is especially true with owner-only companies. For more information on owner-only DB Plans, click [here](#).

Now is also the time to assist clients with their existing defined benefit plan issues. The first issue is over and underfunded plans based on 2022 market returns.

Market volatility can create special issues with regards to funding these plans. We have many clients whose defined benefit assets have lost upwards of 20% in 2022. Sometimes in cases like these, this means the minimum required contribution will go up to make up for the loss.

Underfunding is an issue if business cash flow is down. If a client is unable to contribute required amounts for 2022, action should be taken so they do not get further behind. If they reduce or freeze benefits before participants earn 1000 hours of service, funding can be stopped or reduced for at least 2023. The 2022 funding issues will still have to be resolved.

Clients who have had business downturns or who have taken big losses in the plan are also clients who need attention now.

An overfunded defined benefit plan is a retirement plan that has more than enough funds to cover the plan's benefits. This can be caused when an annual investment return is greater than the assumed actuarial rate of 5 percent or "prefunding" benefits in earlier years. These plans may need to be terminated immediately to stop the excess problem from getting worse. The company has options available including taking the excess back which is subject to a 50% excise tax, transferring the excess into a qualified replacement plan, or increasing benefits.

Clearly these clients need attention now.

Finally, there are many options for business owners who have employees. By establishing a Defined Benefit Plan in combination with a Defined Contribution Plan (DC), business owners can get large contributions for themselves in a DB while minimizing contributions to employees who primarily participate in a DC, typically

a 401(k) Plan. These plans work great when the owner is making a good income and is older than their employees. Doctors, lawyers, tech companies and other professionals are potential for this DB/DC Combo design. To learn more about these plans, click [here](#).

We have only scratched the surface on DB plan issues here.

- You may want to review the information from our DB webinar that covers all the funding and flexibility issues [here](#).
- For an estimate of how much an owner can contribute put into a solo DB plan, see this [chart](#).
- If you are interested in a proposal with firm numbers, complete our [proposal request form](#) and return it to Debbie Rath at drath@nhhicks.com.

Bottom line: Contact your clients and act now. Call clients who may have tax issues and may want a bigger deduction and let us show you their options. We are here to help!