



Chris Ressa

NH HICKS

Legal and Pension Consultants

Unlocking The Creative Potential Of Your Owner Only Retirement Plan Business


March 2025

Experience Counts



Owner Only Retirement Plan Business Webinar Agenda

- Why Pursue Owner Only Retirement Plan Business
- Now Is A Great Time For This Discussion
- Why Partnering With A TPA Makes Sense
- Owner Only Illustrations
- Working With NH Hicks Team



Defined -Benefit Plan
[di-'fɪnd 'be-nə-.fɪt 'plæn]

An employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history.



Defined Contribution Plan
[di-'fɪnd kən-tra-'byū-shən 'plæn]

A retirement plan funded by employees and their employers that doesn't promise a specific amount of benefits.



Mega Backdoor Roth 401(k) Conversion
['me-gə 'bæk-'dɑr 'rɒθ fɔr-(j)ə-(j)wən-'kɑ kən-'vər-zən]

A loophole enabling high-income earners to transfer certain types of 401(k) contributions into a Roth.

Why Pursue Owner Only Retirement Plans Business?



- **Enhance Business Owner Relationship**
 - Introductory Conversation
 - Existing Client In Other Lines Of Business
 - Protect Business Owner Relationship From Other Advisors
 - Larger Accounts Into Your PWM Custodian Accounts
- **Continuous Asset Growth by Annual Contributions**
- **Potential For Referrals From Other Business Owners And CPAs From the Value You Bring**





Discrimination Tests

DOES NOT APPLY

DOES NOT APPLY

ADP/ACP

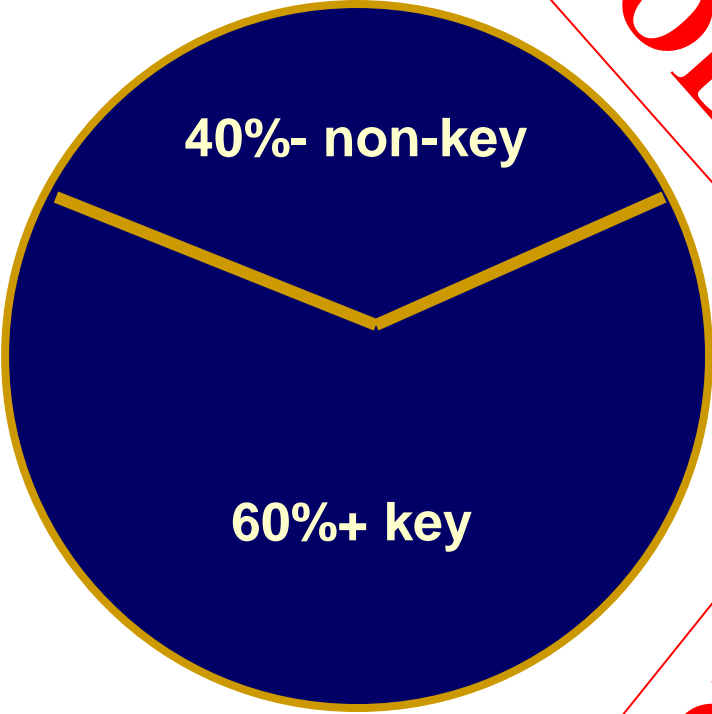
Typically, N + 2% = HCE max avg.

NHCE

6 = 7% max HCE avg.

Prior year on first plan year

3% assumption = 5%



Top-Heavy

Now Is A Great Time For This Discussion



Plan Set Up & Contribution Funding Deadlines



Adding a New Owner Only 401(k) PSP (Partnership & S-Corp) for 2024

- Deadline: Before tax returns are filed with extension on **September 15, 2025**

Adding a New Owner Only 401(k) PSP (Sole Prop. & C-Corp) for 2024

- Deadline: Before tax returns are filed with extension on **October 15, 2025**

Adding a New Defined Benefit Plan (For All Entity Types) for 2024

- Deadline: Before tax returns are filed with extension on **September 15, 2025**

❖ Initial deadline for Partnership & S-Corp is March 17, 2025.

❖ Initial deadline for Sole Prop. & C-Corp is April 15, 2025.

❖ Minimum funding deadline for Defined Benefit Plan is September 15, 2025, if the company is on extension.

Why Partnering With A Quality TPA Makes Sense?



- Creative Plan Design For 401(k) And Combination 401(k) / Defined Benefit Plans
- TPA Consultant Helps You Sell The Plan Along With The Business Owner's Tax CPA In Client/Prospect Meetings
- TPA Helps You Manage The Ongoing Plan Administration ... Biggest compliance errors in the owner only business are the failure to file IRS Form 5500-EZ when assets reach \$250,000 or more and failure to amend and restate plan documents to meet updated IRS requirements.



Table of Limits



	2024	2025
<u>COMPENSATION LIMIT</u> - plan year beginning	345,000	350,000
<u>DC ANNUAL ADDITION LIMIT</u> - plan year ending	69,000	70,000
<u>401(k) DEFERRAL LIMIT</u> - calendar not plan year	23,000	23,500
<u>CATCH-UP DEFERRAL LIMIT</u> - calendar not plan year	7,500	7,500
<u>CATCH-UP LIMIT AGES 60 TO 63</u> - calendar not plan year	N/A	11,250
<u>DB ANNUAL BENEFIT LIMIT</u>	275,000	280,000
<u>HIGHLY COMPENSATED EMPLOYEE (ADP/ACP)</u>		
<i>Employee is considered highly compensated if owner in current or prior plan year. Compensation definition only required to be met in prior plan year.</i>		
1) Over 5% owner		
2) Any employee (may include owner)	155,000	160,000
3) Spouse or linear relation		
<u>KEY EMPLOYEE (Top Heavy)</u>		
<i>Employee is considered key if meets definition in prior plan year.</i>		
1) Over 5% owner		
2) Over 1% owner	150,000	150,000
3) Officer (count at least 1)	220,000	230,000
4) Spouse or linear relation		
<u>TAXABLE WAGE BASE (EE 6.2% / ER 6.2%)</u>	168,600	176,100

DOES NOT APPLY

SEP vs. OWNER ONLY(k)

Comp.	25% SEP	25% PS + 401(k)
\$276,000 Owner 47	\$69,000	\$69,000
Total	\$69,000	\$69,000

\$276,000 Break Even SEP vs. 401(k) with \$69,000 Contribution

* This illustration is using 2024 contribution limits.

SEP vs. OWNER ONLY(k)

Comp.	25% SEP	25% PS + 401(k)
\$100,000 Owner 57	\$25,000	\$25,000 +30,500
Total	\$25,000	\$55,500

122% More in pre-tax deductions with owner compensation of \$100,000

* This illustration is using 2024 contribution limits.

SEP vs. OWNER ONLY(k)

Comp.	25% SEP	25% PS + 401(k)
\$100,000 100% Owner 57	\$25,000	\$25,000 +30,500
\$40,000 Spouse 57	\$10,000	\$10,000 +30,500
Total	\$35,000	\$96,000

Adding your Spouse can make a significant difference

* Maximum spouse DC contribution is 100% of compensation + catch-up limit (in above example \$47,500).

** This illustration is using 2024 contribution limits.

SEP vs. OWNER ONLY(k)

Comp.	25% SEP	25% PS + 401(k)
\$100,000 50% Owner 57	\$25,000	\$25,000 +30,500
\$100,000 50% Owner 57	\$25,000	\$25,000 +30,500
Total	\$50,000	\$111,000

Owner Only Plan can be multiple owners with no employees!

* Only owner plans (those who can file form 5500-EZ) only covers owner, owner & spouse and multiple partners in a business partnership.

** This illustration is using 2024 contribution limits.

Defined Benefit Plan



General Assumptions

Age 48	NRA* 62	Life Exp. 85
Comp. \$225,000	Fund \$2,852,000	Pay \$225,000

Requires \$153,000 contribution

- DB Chart
- Retirement age
- Permanency
- Interest rates
- Investment return goal
- Funding min-max range
- Overfunded/Underfunded
- Funding limit
- Unable to fund
- Freezing
- Terminating

*NRA stands for Normal Retirement Age

2024 Defined Benefit Contribution Table

Ages/Comp	30,000	50,000	70,000	90,000	110,000	130,000	150,000	170,000	190,000
32	45,127	75,212	91,579	91,579	91,579	91,579	91,579	91,579	91,579
34	49,403	82,338	100,969	100,969	100,969	100,969	100,969	100,969	100,969
36	54,083	90,139	111,328	111,328	111,328	111,328	111,328	111,328	111,328
38	59,207	98,679	122,755	122,755	122,755	122,755	122,755	122,755	122,755
40	64,817	108,029	135,351	135,351	135,351	135,351	135,351	135,351	135,351
42	70,992	118,320	149,248	149,248	149,248	149,248	149,248	149,248	149,248
44	77,787	129,646	164,595	164,595	164,595	164,595	164,595	164,595	164,595
46	85,217	142,028	181,541	181,541	181,541	181,541	181,541	181,541	181,541
48	93,339	155,566	200,253	200,253	200,253	200,253	200,253	200,253	200,253
50	102,220	170,366	220,910	220,910	220,910	220,910	220,910	220,910	220,910
52	111,928	186,548	243,717	243,717	243,717	243,717	243,717	243,717	243,717
54	122,543	204,239	268,985	268,985	268,985	268,985	268,985	268,985	268,985
56	134,148	223,580	296,955	296,955	296,955	296,955	296,955	296,955	296,955
58	137,621	229,369	310,921	310,921	310,921	310,921	310,921	310,921	310,921
60	131,385	218,976	301,092	301,092	301,092	301,092	301,092	301,092	301,092
62	124,894	208,158	291,420	319,960	319,960	319,960	319,960	319,960	319,960
64	118,125	196,876	275,625	341,887	351,937	351,937	351,937	351,937	351,937

- Contributions based on NRA 62 and 5 Years of Participation.
- Net 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.

SEP vs. OWNER ONLY(k) vs. DB vs Combo

Comp.	25% SEP	25% PS + 401(k)	DB	DB + 401(k)
\$100,000 100% Owner 57	\$25,000	\$25,000 +30,500	\$272,700	\$309,200
\$40,000 Spouse 57	\$10,000	\$10,000 +30,500	\$248,000	\$280,900
Total	\$35,000	\$96,000	\$520,700	\$590,100

Adding a Defined Benefit Plan significantly increases contribution limits!

* This illustration is using 2024 contribution limits.

Voluntary After-Tax Contributions

Understanding the Concept

- ❖ **Participant contributions** to the retirement plan made **after income taxes** have been paid
- ❖ When paired with an **in-plan Roth rollover** allows participants to convert their after-tax contributions to a **Roth conversion account** within the same retirement plan. Not to be commingled with Roth 401(k) deferrals.
- ❖ Provides benefits for retirement plan participants seeking to **fully utilize their tax-advantaged contribution** opportunities within the annual **defined contribution limits**
- ❖ **Example**

Owner: Mary Jones, Age 57, W2 Comp \$100,000/Yr

Deferral + Catch-Up (Pre-tax or Roth)	\$30,500
25% Profit Sharing	\$25,000
After-tax Contribution with In-Plan Roth Rollover	\$21,000
2024 Defined Contribution Limit	\$76,500

* Assumption for this illustration is that the participant is age 57, using 2024 contribution limits.

Voluntary After-Tax Contributions

When Does It Work?

- ❖ **Plan demographics** will determine **IF** the After-Tax Contributions can be added to a retirement plan and **pass testing**
- ❖ **Voluntary After-Tax Contributions** for **testing purposes** are classified in the same category as **employer matching contributions** to pass the Actual Contribution Percentage (ACP) Test
- ❖ Therefore, for the **ACP Test**, the **average after-tax contribution percentage for the Highly Compensated Employees (HCEs)** is tested against the average after-tax contribution percentage for the Non-Highly Compensated Employees (NHCEs)
- ❖ **Favorable** plan demographics

➤ Owner-Only Plans

- Plans with **only Highly Compensated Employees (HCEs)**
- Larger companies with a significant percentage of **their employees are highly compensated** and they use the **HCE limit definition of the top 20%**

OWNER ONLY(k) Adding Spouse Without A Deferral



Participant	Age	Compensation	401(k) Def	401(k) PS	After-Tax with IPRR	Total Contributions	% of Total Benefits
Owner	46	\$166,000	\$23,500	\$46,500	\$0	\$70,000	77.8%
Spouse	43	\$20,000	\$0	\$0	\$20,000	\$20,000	22.2%
Total		\$186,000	\$23,500	\$46,500	\$20,000	\$90,000	100%

- ❖ Owner can use all the profit-sharing on his account (25% of \$186,000)
- ❖ Spouse can have a maximum of 100% of compensation + catch-up (if applicable) into the after-tax with in-plan Roth rollover account

* This illustration is using 2025 contribution limits with W2 wages.

OWNER ONLY(k) Combination Plans With After-Tax



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Participant	Age	Compensation	401(k) Def	401(k) PS	After-tax with IPRR	DB Cont	Total Contributions	% of Total Benefits
Owner	46	\$125,000	\$23,500	\$8,700	\$37,800	\$138,716	\$208,716	82.2%
Spouse	43	\$20,000	\$0	\$0	\$20,000	\$25,284	\$45,284	17.8%
Total		\$145,000	\$23,500	\$8,700	\$57,800	\$164,000	\$254,000	100%


By using the after-tax with in-plan Roth rollover accounts the owner can reach the DC contribution limit of \$70,000, and the spouse to their DC limit of 100% of compensation.

For the household there would be a maximum of \$196,200 of tax-deductible contributions with \$57,800 in Roth rollover accounts.

* This illustration is using 2025 contribution limits using W2 wages.

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Your NH Hicks Marketing Team

Chris Ressa

(916) 316-5932 cressa@nhhicks.com

Debbie Rath

(530) 232-3395 drath@nhhicks.com

Samantha Nethington

(530) 891-4975 snethington@nhhicks.com

Tom Hicks

(530) 521-7024 tomhicks@nhhicks.com

www.nhhicks.com

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