

CREATIVE RETIREMENT PLAN DESIGN

2016

Presented by:



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PLAN LIMITS

2016 INDIVIDUAL LIMITS

Maximum compensation:	\$265,000
Maximum 401(k) contribution:	\$ 18,000
Maximum "catch-up" contribution:	\$ 6,000
Maximum DC 415 limit:	lesser of \$53,000 or 100% of pay*
Maximum annual DB Benefit limit:	\$210,000

*If age 50 or older, the "catch-up" contribution is added to maximum limits

2016 COMPANY LIMITS

- If DC only, 25% of total pay.
- If both Defined Benefit (DB) and Defined Contribution (DC) plans:
 - If DB plan is not covered by the PBGC, maximum overall deduction limit is:
 - Full DB contribution, plus DC contribution up to 6% of total pay; or
 - If DC contribution is greater than 6% of total pay, total of DB and DC contributions is limited to 31% of total pay.
 - If covered by the PBGC: full DB contribution plus DC limit of 25% of total pay.

4 FUNDAMENTAL QUESTIONS TO DESIGN YOUR PLAN

QUESTION #1: WHOM DO YOU WANT IN THE PLAN AND WHEN?

- Minimum Age: Age 21 or less
- Maximum Service: 1 year or less, unless Profit Sharing only; 2 years or less
- Exclusions: Union, Nonresident alien, leased employees
- Entry Dates:
 - Immediate
 - Monthly
 - Quarterly
 - Semi-Annual – January 1 or July 1

QUESTION #2: WHAT ARE THE SOURCES OF \$ AND WHO RECEIVES IT?

- 401(k) Pre-Tax or ROTH Post-Tax Salary Deferral
- Safe Harbor Match (Basic and Enhanced)
- 3% Safe Harbor Non-Elective
- Additional Match
- Profit Sharing Contribution
- Other Employer Contribution (Cash Balance Pension Plan)

QUESTION #3: WHO CAN ACCESS \$ AND WHEN?

- Loans
- Financial Hardship
- In-Service withdrawal at age 59½ or Normal Retirement Age
- Death
- Disability

QUESTION #4: HOW TO INVEST THE \$?

- Participant vs. Trustee directed

RETIREMENT PLAN EXAMPLE #1

Traditional 401(k) Plan

IDEAL PLAN

- Start-up companies with limited resources
- Can use as a building block for later enhancements

THINGS TO REMEMBER

- Need Non-Highly Compensated employees to participate in order for owners to defer 401(k)
- Top-Heavy and ADP testing needs to be monitored closely

TRADITIONAL 401(K) PLAN

	Age	Total Comp	401(k)	Catch-Up	Total	401(k) Allocation Percent*	ADP %
Owner 1	60	\$265,000	\$18,000	\$ 6,000	\$24,000	6.79%	10.89%
Owner 2	52	\$120,000	\$18,000	\$ 6,000	\$24,000	15.00%	
Subtotal		\$385,000	\$36,000	\$12,000	\$48,000		
Employee 1	55	\$ 50,000	\$ 5,000	\$ 0	\$ 5,000	10.00%	5.00%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 0	\$ 2,250	5.00%	
Employee 3	35	\$ 40,000	\$ 2,000	\$ 0	\$ 2,000	5.00%	
Employee 4	25	\$ 30,000	\$ 0	\$ 0	\$ 0	0.00%	
Subtotal		\$165,000	\$ 9,250	\$ 0	\$ 9,250		
Total		\$550,000	\$45,250	\$12,000	\$57,250		

*Catch-up contributions are excluded from the 401(k) allocation percent.

*ADP test fails and Top Heavy issues in this example.

RETIREMENT PLAN EXAMPLE #2

401(k) with Safe Harbor 3%

IDEAL PLAN

- Companies with cash flow to support 3% employer contribution
- Can use as a building block for additional employer contribution

THINGS TO REMEMBER

- Avoids ADP and compliance testing
- Highly Compensated employees can defer maximum
- Cost effective way to have small plan
- Can use 3% as base for additional employer allocation
- Need to commit 30 days prior to beginning of year

401(K) WITH SAFE HARBOR 3%

	Age	Total Comp	401(k)	Safe Harbor 3%	Employer %	Total	Total Allocation Percent
Owner 1	60	\$ 265,000	\$24,000*	\$ 7,950	3%	\$ 31,950	12.06%
Owner 2	52	\$ 120,000	\$24,000*	\$ 3,600	3%	\$ 27,600	23.00%
Subtotal		\$385,000	\$48,000	\$11,550		\$59,550	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 1,500	3%	\$ 6,500	13.00%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,350	3%	\$ 3,600	8.00%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,200	3%	\$ 3,200	8.00%
Employee 4	25	\$ 30,000	\$ 0	\$ 900	3%	\$ 900	3.00%
Subtotal		\$165,000	\$ 9,250	\$ 4,950		\$14,200	
Total		\$550,000	\$57,250	\$16,500		\$73,750	

*includes \$6,000 catch-up contribution

RETIREMENT PLAN EXAMPLE #3

401(k) with Safe Harbor Match

IDEAL PLAN

- Companies with cash flow to support Safe Harbor Match contribution
- Companies that want employees to put “some skin in the game” in order to get Employer Safe Harbor Match

THINGS TO REMEMBER

- Makes more sense if the goal is for employees to be more active in plan versus just 3% Safe Harbor
- Need to commit 30 days prior to beginning of year

401(K) WITH SAFE HARBOR MATCH

	Age	Total Comp	401(k)	Safe Harbor Match	Employer %	Total	Total Allocation Percent
Owner 1	60	\$265,000	\$ 24,000*	\$10,600	4%	\$34,600	13.06%
Owner 2	52	\$120,000	\$ 24,000*	\$ 4,800	4%	\$28,800	24.00%
Subtotal		\$385,000	\$48,000	\$15,400		\$63,400	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 2,000	4%	\$ 7,000	14.00%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,800	4%	\$ 4,050	9.00%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,600	4%	\$ 3,600	9.00%
Employee 4	25	\$ 30,000	\$ 0	\$ 0	0%	\$ 0	0.00%
Subtotal		\$165,000	\$ 9,250	\$ 5,400		\$14,650	
Total		\$550,000	\$57,250	\$20,800		\$78,050	

*includes \$6,000 catch-up contribution

RETIREMENT PLAN EXAMPLE #4

401(k) with 3% Safe Harbor and New Comparability Employer Contribution

IDEAL PLAN

- Companies with older owners versus staff (typically 7 years average age difference)
- Companies with cash flow to support 3% employer contribution
- Can use a building block for additional employer contribution

THINGS TO REMEMBER

- Need to commit to the 3% Safe Harbor
- Can vary contribution by participant provided you pass IRS guidelines

NEW COMPARABILITY WITH SAFE HARBOR 401(K) PLAN

	Age	Total Comp	401(k)	Safe Harbor 3%	New Comp	Total Employer %	Total	Allocation Percent
Owner 1	60	\$ 265,000	\$ 24,000*	\$ 7,950	\$ 27,050	13.21%	\$ 59,000	22.26%
Owner 2	52	\$ 120,000	\$ 24,000*	\$ 3,600	\$ 31,400	29.17%	\$ 59,000	49.17%
Subtotal		\$ 385,000	\$ 48,000	\$ 11,550	\$58,450		\$ 118,000	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 1,500	\$ 1,000	5.00%	\$ 7,500	15.00%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,350	\$ 900	5.00%	\$ 4,500	10.00%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,200	\$ 800	5.00%	\$ 4,000	10.00%
Employee 4	25	\$ 30,000	\$ 0	\$ 900	\$ 600	5.00%	\$ 1,500	5.00%
Subtotal		\$165,000	\$ 9,250	\$ 4,950	\$ 3,300		\$ 17,500	
Total		\$550,000	\$ 57,250	\$16,500	\$61,750		\$135,500	

*includes \$6,000 catch-up contribution

RETIREMENT PLAN EXAMPLE #5

401(k) with 3% Safe Harbor Profit Sharing and Separate “Cash Balance” Pension Plan

IDEAL PLAN

- Needs consistent cash flow
- Employer contribution is more rigid and requires a 3 to 5 year time commitment
- Significantly larger employer contribution
- Can vary contribution by owner

THINGS TO REMEMBER

- Mandatory contribution levels
- Need to review as Employer census changes
- Need to commit for several years

401(K) WITH 3% SAFE HARBOR PROFIT SHARING AND SEPARATE "CASH BALANCE" PENSION PLAN

	Age	Total Comp.	401(k)	Safe Harbor 3%	New Comp	Cash Balance	Total ER %	Total	Alloc. %
Owner 1	60	\$265,000	\$24,000*	\$ 7,950	\$ 7,950	\$100,000	43.74%	\$139,900	52.79%
Owner 2	52	\$120,000	\$24,000*	\$ 3,600	\$ 3,600	\$ 50,000	47.67%	\$ 81,200	67.67%
Subtotal		\$385,000	\$48,000	\$11,550	\$11,550	\$150,000		\$221,100	
Employee 1	55	\$50,000	\$ 5,000	\$ 1,500	\$ 1,500	\$ 1,000	8.00%	\$ 9,000	18.00%
Employee 2	40	\$45,000	\$ 2,250	\$ 1,350	\$ 1,350	\$ 900	8.00%	\$ 5,850	13.00%
Employee 3	35	\$40,000	\$ 2,000	\$ 1,200	\$ 1,200	\$ 800	8.00%	\$ 5,200	13.00%
Employee 4	25	\$30,000	\$ 0	\$ 900	\$ 900	\$ 600	8.00%	\$ 2,400	8.00%
Subtotal		\$165,000	\$ 9,250	\$ 4,950	\$ 4,950	\$ 3,300		\$ 22,450	
Total		\$550,000	\$57,250	\$16,500	\$16,500	\$153,300		\$243,550	

*includes \$6,000 catch-up contribution



THE NEXT STEP

WHAT INFORMATION IS NECESSARY TO PERFORM CALCULATIONS?

- Employee Census Information
 - Date of Birth
 - Date of Hire
 - Pay/Hours
 - Three highest prior years of income for owners
- Additional information is needed, if client currently has a Retirement Plan
- Payroll fee statements (if applicable) to prepare for analysis on payroll integration

WHAT IS THE EMPLOYER'S OBJECTIVE WITH THE RETIREMENT PLAN?

- Whom do they want to benefit?
- When do owners wish to retire?
- What would they feel comfortable contributing each year on behalf of themselves and the employees?



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- Available to attend meetings to further explain these plan designs to the client.
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