

Creative Retirement Plan Design

2020



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Plan Limits

2020 INDIVIDUAL LIMITS

Maximum compensation:	\$285,000
Maximum 401(k) contribution:	\$ 19,500
Maximum "catch-up" contribution:	\$ 6,500
Maximum Defined Contribution (DC) limit:	Lesser of \$57,000 or 100% of pay*
Maximum Defined Benefit (DB) limit:	\$230,000

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

2020 COMPANY LIMITS

- » DC only: 25% of gross pay.
- » DB/DC combo 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 gross pay; or
 - If DC contribution is greater than 6% of gross pay, total of DB and DC contributions is limited to 31% of gross pay.
 - If covered by the PBGC: full DB contribution plus DC limit of 25% of gross pay.

Fundamental Questions to Help 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 #3:

WHO CAN ACCESS \$ AND WHEN?

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

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 #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

*Employees who earned less than \$125,000 during 2019

TRADITIONAL 401(K) PLAN

	Age	Total Comp	401(k)	Catch-Up	Total	401(k) Allocation Percent*	ADP %
Owner 1	60	\$285,000	\$19,500	\$ 6,500	\$26,000	6.84%	
Owner 2	52	\$120,000	\$19,500	\$ 6,500	\$26,000	16.25%	11.55%
Subtotal		\$405,000	\$39,000	\$13,000	\$52,000		
Employee 1	55	\$ 50,000	\$ 5,000	\$ 0	\$ 5,000	10.00%	
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%	5.00%
Subtotal		\$165,000	\$ 9,250	\$ 0	\$ 9,250		
Total		\$570,000	\$48,250	\$13,000	\$61,250		

*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 3% Safe Harbor

IDEAL PLAN

- Companies with cash flow to support 3% employer contribution

THINGS TO REMEMBER

- Avoids ADP and compliance testing
- Highly Compensated Employees can defer maximum (no refunds)
- Cost effective way to have small plan
- Can use 3% as base for additional employer allocation
- Advance notices have changed with the Secure Act effective 1/1/20

401(K) WITH 3% SAFE HARBOR

	Age	Total Comp	401(k)	Safe Harbor 3%	Employer %	Total	Total Allocation Percent
Owner 1	60	\$ 285,000	\$26,000*	\$ 8,550	3%	\$ 34,550	12.12%
Owner 2	52	\$ 120,000	\$26,000*	\$ 3,600	3%	\$ 29,600	24.67%
Subtotal		\$405,000	\$52,000	\$12,150		\$63,950	
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		\$570,000	\$61,250	\$17,100		\$78,150	

*includes \$6,500 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	\$285,000	\$26,000*	\$11,400	4%	\$37,400	13.12%
Owner 2	52	\$120,000	\$26,000*	\$ 4,800	4%	\$30,800	25.67%
Subtotal		\$405,000	\$52,000	\$16,200		\$68,200	
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		\$570,000	\$61,250	\$21,600		\$82,850	

*includes \$6,500 catch-up contribution

Retirement Plan EXAMPLE #4

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

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

401(K) WITH 3% SAFE HARBOR AND NEW COMPARABILITY

	Age	Total Comp	401(k)	Safe Harbor 3%	New Comp	Total Employer %	Total	Allocation Percent
Owner 1	60	\$ 285,000	\$ 26,000*	\$ 8,550	\$ 28,950	13.16%	\$ 63,500	22.28%
Owner 2	52	\$ 120,000	\$ 26,000*	\$ 3,600	\$ 33,900	31.25%	\$ 63,500	52.92%
Subtotal		\$ 405,000	\$ 52,000	\$ 12,150	\$62,850		\$ 127,000	
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		\$570,000	\$ 61,250	\$17,100	\$66,150		\$144,500	

*includes \$6,500 catch-up contribution

Retirement Plan

EXAMPLE #5

401(k) with 3% Safe Harbor, Profit Sharing and Cash Balance

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

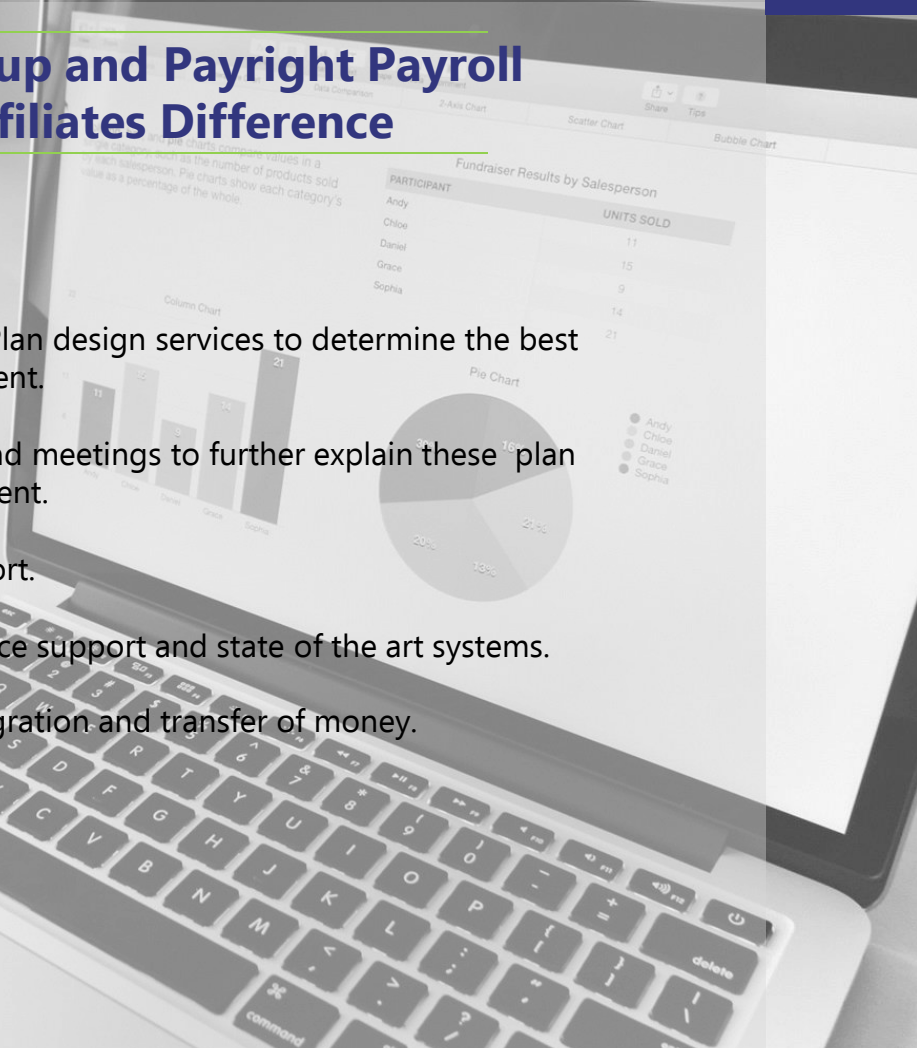
401(K) WITH 3% SAFE HARBOR, PROFIT SHARING AND CASH BALANCE

	Age	Total Comp	401(k)	3% Safe Harbor	Profit Sharing	Cash Balance	Total ER %	Total	Alloc. %
Owner 1	60	\$285,000	\$26,000*	\$ 8,550	\$ 8,550	\$110,000	44.60%	\$153,100	53.72%
Owner 2	52	\$120,000	\$26,000*	\$ 3,600	\$ 3,600	\$ 48,000	46.00%	\$ 81,200	67.67%
Subtotal		\$405,000	\$52,000	\$12,150	\$12,150	\$158,000		\$234,300	
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		\$570,000	\$61,250	\$17,100	\$17,100	\$161,300		\$256,750	

*includes \$6,500 catch-up contribution

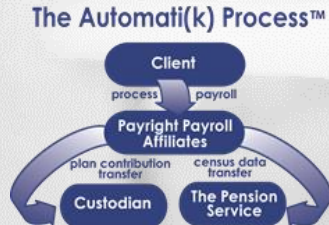
TPS Group and Payright Payroll Affiliates Difference

- » Local expertise.
- » Comprehensive Plan design services to determine the best plan(s) for the client.
- » Available to attend meetings to further explain these plan designs to the client.
- » Enrollment support.
- » Customized service support and state of the art systems.
- » Streamlined integration and transfer of money.



TPS Group and Payright Payroll Affiliates Difference

- » Payroll solutions to fit your unique needs
- » Full retirement integration through our "Automati(k) Process™"



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3(16) Plan Administration

ERISA's stringent requirements for Plan Sponsors has made the administration of retirement plans even more complex and subject to legal challenges. Now more than ever, outsourcing these responsibilities to a qualified 3(16) fiduciary makes sound business sense.

As the delegated 3(16) plan administrator, TPS 3(16) Service, LLC:

- Relieves staff of many of the day-to-day administrative burdens associated with sponsoring a plan
- Reduces liability and audit risk
- Increases HR capacity
- Helps to ensure full ERISA compliance

TPS 3(16) Service, LLC includes:

- ✓ Eligibility tracking
- ✓ Invitation into the plan for newly eligible employees
- ✓ Beneficiary maintenance
- ✓ Monitoring of ongoing deposits to ensure timely processing
- ✓ Handling participant phone calls and processing transactions without Plan Sponsor involvement
- ✓ Using discretion to approve and process loans, distributions, hardships and QDROs
- ✓ Monitoring loan repayments,
- ✓ Signing Form 5500 as the assigned 3(16) plan fiduciary
- ✓ Attending and leading the Annual Fiduciary Meeting
- ✓ Overseeing the timely distribution of annual disclosures and notices.

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?

Disclaimer

This information is of a general and informational nature and IS NOT INTENDED TO CONSTITUTE LEGAL OR TAX ADVICE. Rather, it is provided as a means to inform you of current information about legislative, regulatory changes, and other information of interest. The information is based on current interpretations of the law and is not guaranteed. Neither the company nor its representatives give legal or tax advice. Please consult your attorney or tax advisor for answers to specific questions.

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