

Welcome to our 28th Annual 401(k) Class & Update

A Presentation of
 GROUP RHI

Hosted by


October 22, 2019



From the Pacific Northwest

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Gold Level

John Hancock
RETIREMENT PLAN SERVICES

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Silver Level



Group RHI Today: One Enterprise; Five Brands





WHAT IS THE GOAL OF YOUR COMPANY'S RETIREMENT PLAN?

Your Company's 401(k) Plan MUST reflect the goals of
your Company.

Goals = Plan Design

Recruitment

Retention

Tax Savings

Targeted
Contributions:

- Owners/Partners
- Specific Employees
- ALL Employees

WHAT GOVERNMENT AGENCIES HAVE OVERSIGHT OF QUALIFIED RETIREMENT PLANS?

- The Internal Revenue Service
www.irs.gov
- The Department of Labor
www.dol.gov



NOTE: BOTH AGENCIES CAN AUDIT RETIREMENT PLANS

INTERNAL REVENUE SERVICE

- Jurisdiction - Qualified Status of Retirement Plans
- Document Requirements
- Discrimination Testing
- Deduction Limits, Eligibility, Vesting, etc.
- Very Objective Standards

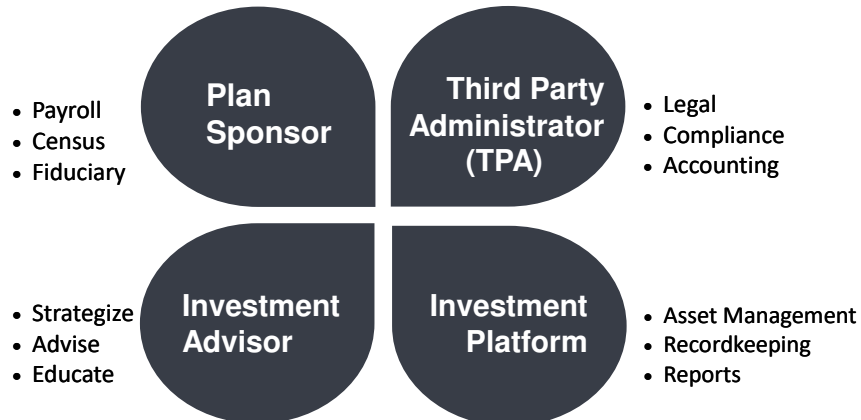


DEPARTMENT OF LABOR

- **Fiduciary Standards**
- **Reporting and Disclosure Requirements**
- **Participants' Rights**
 - **Late Deposits**
 - **Fees, etc.**
- **Cannot Disqualify a Plan but can Levy Fines**
- **Very Subjective Standards**



WHO DOES WHAT? THE 401(k) TEAM



Who do I call for questions?

- | | |
|------------------------------------|----------------------------------|
| • How to deposit contributions? | Contact Investment Platform. |
| • What should I invest in? | Contact Investment Advisor. |
| • Plan Operations—Who is Eligible? | Contact Your Plan Administrator. |

YOUR OBLIGATION AS PLAN SPONSOR

AS PLAN SPONSOR

YOU

**Have certain obligations to make sure your
Plan is in compliance. You must...**

- 1. Give us census data on ALL employees.**
- 2. Tell us if you have interrelated companies.**
- 3. Tell us of changes in your company or key personnel.**
- 4. Let us know if you forgot something. (We are on your side.)**

Complete Information = Total Compliance

Distributions



LEAKAGE

HARDSHIP DISTRIBUTION RULES

The Bi-Partisan Budget Act of 2018 made significant changes to the Hardship Distribution rules.



What Changed?

- Elimination of 6-month suspension of deferrals (eff. 1/1/2020)
- Expanded sources allowed for Hardship Distributions
- Optional elimination of the requirement to take a plan loan first
- Expansion of qualifying Hardship Distributions

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HARDSHIP DISTRIBUTION RULES

If allowed by the Plan, a distribution must be for immediate and heavy financial need, limited to:

- Medical expenses
- Purchase of principal residence
- Payment of post-secondary education
- To prevent eviction or foreclosure related to principal residence
- Payment for funeral expenses for parent, spouse, children or dependents
- Expenses for the repair of damage to principal residence that would qualify as a casualty deduction
- *(NEW!)* Losses and expenses on account of a Federally declared Disaster as designated by FEMA.

HARDSHIP DISTRIBUTION RULES

- The amount may not exceed the amount necessary for the need
- Tax Effect
 - Income Tax
 - 10% Penalty
 - Not eligible for rollover



HARDSHIP SUBSTANTIATION GUIDELINES

Additional guidance released in
The Bi-Partisan Budget Act of 2018



KEY: Keep Source Documents!!

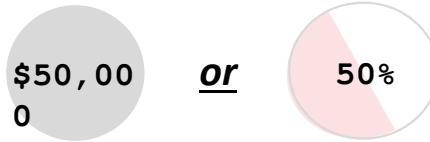
Examples:

- Bills/Statements: medical bills, college tuition bills
- Contracts: real estate purchase agreement
- Estimates: to fix unexpected damage to home due to casualty losses



PARTICIPANT LOANS

- Plan loans are limited to the lesser of:



- Maximum repayment period is 5 years
- Maximum repayment period for principal residence is 15 years
- Payments must be at least quarterly using level amortization and a reasonable interest rate

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REQUIRED MINIMUM DISTRIBUTION (RMD)

Participant must take a distribution from a qualified plan if:

- Retired, 5% owner or lineal ascendants of 5% owner
- Age 70 ½
- Deadline: 12/31 following age 70 ½
- Except 1st year where you can wait until 4/1 of the year following age 70 ½ (must then take two)
- Must also take RMDs from IRAs, but not Roth IRAs



QUALIFIED DISTRIBUTIONS

- **Death**
- **Disability**
- **Termination**
 - **Rollover**
 - Existing Qualified Plan
 - IRA
 - **Cash-Out**
 - 20% tax withheld
 - 10% Penalty
 - Catch-up Withholding



AUTOMATIC ROLLOVERS & CASHOUTS

- **For small account balances under \$5,000**
- **No consent necessary**
- **Need IRA custodian**
- **Platform may help**
- **<\$1,000 – distribute cash**
- **\$1,000 - \$5,000 – rollover to IRA**

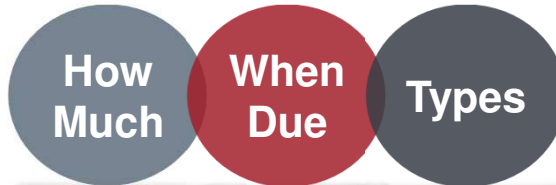


LOST PARTICIPANTS



A professional portrait of a man with dark hair, smiling, wearing a dark suit, white shirt, and a dark red tie. The background is a plain, light-colored wall. To the left of the portrait, there is a white vertical panel with text and a logo. The text reads "Kevin Rangel" in a large, serif font, with "Vice President of Sales & Marketing" in a smaller, sans-serif font below it. The logo for "M2 TRUST SERVICES" is positioned below the text, featuring a stylized "M2" with a bar chart element and the words "TRUST SERVICES" underneath. The bottom of the white panel is decorated with a pattern of small red dots.

Employee Contributions



The Power of a properly designed and understood 401(k) Plan...



Let's look at some limits...



INDIVIDUAL LIMITS

Calendar year 2019: \$19,000

Historic Deferral Contribution Limits

TIP:
Check
deferrals
NOW to
maximize

Calendar Year	Maximum Deferrals	
	401(k) 403(b)	Over 50 Catch-up Contribution
2019	19,000	6,000
2018	18,500	6,000
2017	18,000	6,000
2016	18,000	6,000
2015	18,000	6,000
2014	17,500	5,500
2013	17,500	5,500
2012	17,000	5,500
2011	16,500	5,500
2010	16,500	5,500
2009	16,500	5,500
2008	15,500	5,000
2007	15,500	5,000
2006	15,000	5,000
2005	14,000	4,000
2004	13,000	3,000
2003	12,000	2,000
2002	11,000	1,000
2001	10,500	N/A

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INDIVIDUAL LIMITS

- Same limits for 403(b) plans (non-profit entities)
- Same limits for section 457 plans (government entities)
- Limits adjust in \$500 increments subject to cost of living increases

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CATCH-UP PROVISION

Turning age 50 by the
end of the Plan year?



If you are, you can
defer an extra \$6,000.
(2019 Limit)

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HOW MUCH CAN BE CONTRIBUTED TO A PLAN ANNUALLY?

(§415) of the IRS Code

Employee Contributions	+	Employer Contributions	+	Forfeitures	=	Annual Limit
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- **2019 Limit** - \$56,000 or 100% of compensation (\$62,000 if over Age 50)
- Indexed for inflation in \$1,000 increments

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When MUST Employee 401(k) Deferrals be deposited?

DOL/IRS
Audit Issue!!

General Rule:

As soon as you can “segregate the assets” or in plain English...ASAP!

Regulations say...

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WHEN ARE EMPLOYEE DEPOSITS DUE?

- **Safe Harbor time limit**
 - Applies to plans with fewer than 100 participants
 - Timing – 7th business day following the issuance of payroll
- **Generally on the earliest date possible, but in no event later than the 15th business day of the month following the date withheld.**

Note: If employees are paid twice a month, two separate deposits need to be made.

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ROTH 401(k)



Effective January 1, 2006



Made permanent by the Pension Protection Act



After tax contributions



Tax-free growth



Roth Conversions - Internal (effective January 1, 2013)

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ROTH 401(k)

(Runaway Deficits = Higher Taxes)

Under 35 → GO!

35 - 55 → Consider Some Roth

Over 55 → Only for Select Circumstances



Know when to "Go", "Slow", or "Stop"

Roth

Contributions.

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Excellent Tax Planning Tool

ROTH 401(k)

- Once rolled to Roth IRA, **NO Required Minimum Distributions (Age 70½)**
- May begin to withdraw funds at age 59½ with 5 years of accumulation



Excellent Tax & Estate
Planning Tool

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ROTH EXAMPLES

Example 1: Age 30
\$200/month for 35 years
7% Rate of Return
Account accumulates TAX FREE
Account Balance at age 65:

\$331,769.00

(Investment earnings = \$247,769)



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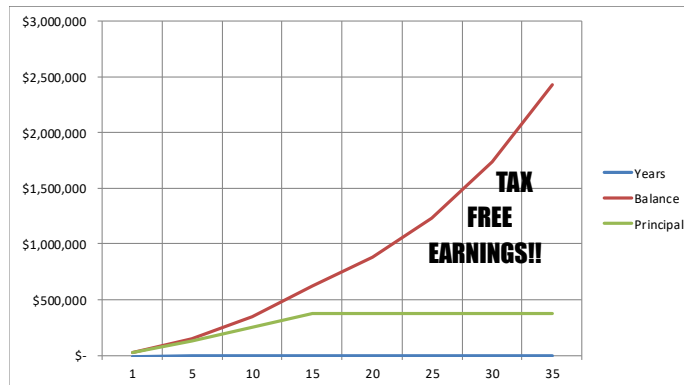
ROTH EXAMPLES

Example 2: Age 50
 Maximum per year until age 65 (\$25,000 -2019)
 7% Rate of Return
 Account Balance at age 85:

\$2,431,035.00

(Investment earnings = \$2,056,035)

Balance Passes INCOME TAX FREE to heirs!!



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PLAN DESIGN

The nuts and bolts to your retirement plan

- Ask questions to avoid plan design issues
- Go for the best fit



High-level design is critical to structuring a retirement plan that fits your organization.

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PLAN DESIGN ISSUES

Each Plan provision has a COST

- Internal
- External

Examples of “Stealth” Costs

- Too liberal eligibility
- Too many entry dates
- Short vesting schedules

**BUT Balance
Costs vs. Benefits
(goals)**

Non-traditional investments

Brokerage accounts

Too many withdrawal options



AUTOMATIC ENROLLMENT

HOW IT WORKS

- Participants, as stated in the Plan document, automatically defer a set percentage unless they opt out
- Must apply to everyone, however you can disregard current participants
- Pitfalls
 - Employer must contribute if plan provisions are not followed
 - Must carefully monitor the payroll system



AUTOMATIC ENROLLMENT

WHAT HAS TO BE DONE?

1. Plan Document must be amended
2. Adequate notice must be provided to employees
3. Investment accounts must be set up

Approved investments by the Department of Labor are:

 - » Life Style Fund
 - » Balanced Fund
 - » Professionally Managed Fund
 - » Target Date Fund
4. Qualified Default Investment Alternative (QDIA) notice must be given to participants



AUTOMATIC ENROLLMENT

Different Versions:

1. **Basic** - Just Pick a % (example 5%)
 - For New Enrollees or For All

2. **Advanced** - Pick a BEGINNING % but increase the % each year up to a ceiling
 - Example:

Year 1	3%
Year 2	4%
Year 3	5%
Year 4	6%
Year 5+	7%



AUTOMATIC ENROLLMENT

3. Auto w/Required Employer Contribution—

Qualified Automatic Contribution Arrangement (QACA)

- Set Auto Deferral @ at least 3%
- 10% Maximum
- Match at Least:
 - 100% of first 1%
 - 50% of the next 2%-6%
- No Allocation Conditions for the Match
- Vesting – 2 year Cliff:
 - Year 1 0%
 - Year 2 100%
- Cannot distribute for hardship
- Notice goes to all eligible to defer 30-90 days before start of each year
- Employees can opt out
 - 2nd Pay period AFTER notice OR
 - 1st pay date at least 30 days after notice

The Benefit

No Discrimination Test
& limited Top Heavy
exclusions. (If the plan
is only deferrals &
QACA).



**So, when do we let
employees participate?**



ELIGIBILITY

Eligibility & Entry Dates

are important to get right. They have a big impact on cost and Employee perception.

Choose wisely!



ELIGIBILITY

Taking eligibility to the “tips”

- Minimum age can be as high as 21
- Waiting period can be one (1) year with vesting
- Minimum hours can be as high as 1,000
- Can exclude collective bargaining unit employees and non-resident aliens



ELIGIBILITY

Semi-
Annual

Quarterly

Monthly

Daily
(please don't!)

Which one is best for your company?
(Stealth Cost!)
Consider the mental health of your
HR Director!!



ELIGIBILITY

Q: Can we exclude specific groups of employees? (e.g.-a division, a class of employees)

A: Yes, but with limitations. We have to pass the IRS “Minimum Coverage Test”.



ELIGIBILITY

What about MULTIPLE companies?

- **Controlled Groups**
- **Affiliated Service Groups**
- **Issues: Common Ownership or Services**



ELIGIBILITY

EXAMPLE:

Person X owns 100% of two (2) unrelated companies.

- What **CAN** you do?
[Exclude one of them? Maybe.](#)
- What **MUST** you do?
[Consider both for testing.](#)



ELIGIBILITY

EXAMPLE:

What must you look for?

ASK – “Do you own part of more than one company or do any family members?”

**IF SO...
CALL YOUR PLAN
ADMINISTRATOR**



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From Capital Group



Jeff Hunkins

VP, Retirement Plan
Counselor

HIGHLY COMPENSATED EMPLOYEES

You are a Highly Compensated employee if:

1. You are a **GREATER** than 5% owner at any time during current *or* preceding Plan year
Lineal attribution applies (spouse, children, parents, etc.)

OR

2. Have compensation over \$125,000 in the previous year.

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Compensation

Lions, Tigers and Bears...

Oh my!



WHAT COMPENSATION IS USED FOR OWNERS?

C-Corp	W-2 Wages
S-Corp	W-2 Wages (not K-1) <i>More to Come</i>
Sole Proprietor	Schedule C Net Profit
LLC/PLLC	K-1 Self Employment Earnings

Compensation Maximum
\$280,000 (2019)

WE NEED ACCURATE DATA!

Everything we do for compliance revolves AROUND the data we receive from YOU. If you are not sure what we need...please call!

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DISCRIMINATION TESTS

#1 Actual Deferral Percentage (ADP) Test

For each participant:

$$\frac{\text{401(k) deferrals}}{\text{compensation}} = \%$$

Example:

$$\frac{\$5,000}{\$50,000} = 10\%$$

This test compares the Highly Compensated deferral average to the Non-Highly Compensated deferral average.

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TESTING TABLE

Actual Deferral Percentage (ADP): Participant's total 401(k) contributions **divided** by compensation. For the Highly Compensated Group (**HCG**) or Non-Highly Compensated Group (**NHCG**), the ADP is the average of the individual ADPs for all participants of that group.

To satisfy this test, 401(k) contributions must meet one of the two following discrimination tests:

- **The ADP of the HCG cannot exceed 200% of the ADP of the NHCG and the point spread between the two groups cannot exceed two percentage points; or**
- **The ADP of the HCG cannot exceed 125% of the ADP of the NHCG**



TESTING TABLE

How it Works

If the "bottom" group averages this:	Then the "top" group averages this:
1%	2%
1.5%	3%
2%	4%
3%	5%
4%	6%
5%	7%
6%	8%
7%	9%
8%	10%
9%	11.25%
10%	12.50%



DISCRIMINATION TESTS

#2

Actual Contribution Percentage (ACP) Test

Tests Employer matching contributions

$$\frac{\text{Matching Contribution}}{\text{Compensation}} = \%$$

Same rules as the Employee Deferral (ADP) test but for matching contributions



DISCRIMINATION TESTS

ACTUAL DEFERRAL PERCENTAGE TEST
FOR THE YEAR ENDING DECEMBER 31, 2019
THIS TEST PASSES

PARTICIPANT NAME	ELIGIBLE COMPENSATION	SALARY DEFERRALS	ADP
<i>Highly Compensated Group:</i>			
HC 1	\$ 280,000	\$ 19,000	6.79%
HC 2	200,000	19,000	9.50%
HC 3	150,000	7,500	5.00%
HCG AVERAGE ADP			7.10%
<i>Non-Highly Compensated Group:</i>			
Staff 1	100,000	19,000	19.00%
Staff 2	95,000	4,750	5.00%
Staff 3	95,000	0	0.00%
Staff 4	80,000	6,000	7.50%
Staff 5	60,000	0	0.00%
Staff 6	55,000	550	1.00%
Staff 7	50,000	5,000	10.00%
Staff 8	50,000	500	1.00%
Staff 9	40,000	1,000	2.50%
Staff 10	40,000	2,400	6.00%
NHCG AVERAGE ADP			5.20%
TOTALS	\$ 1,295,000	\$ 84,700	



DISCRIMINATION TESTS

ACTUAL DEFERRAL PERCENTAGE TEST
FOR THE YEAR ENDING DECEMBER 31, 2019
THIS TEST FAILS

PARTICIPANT NAME	ELIGIBLE COMPENSATION	SALARY DEFERRALS	ADP
<i>Highly Compensated Group:</i>			
HC 1	\$ 280,000	\$ 19,000	6.79%
HC 2	200,000	19,000	9.50%
HC 3	150,000	9,000	6.00%
HCG AVERAGE ADP			7.43%
<i>Non-Highly Compensated Group:</i>			
Staff 1	80,000	6,000	7.50%
Staff 2	70,000	4,200	6.00%
Staff 3	70,000	0	0.00%
Staff 4	60,000	6,000	10.00%
Staff 5	50,000	0	0.00%
Staff 6	50,000	0	0.00%
Staff 7	50,000	0	0.00%
Staff 8	50,000	0	0.00%
Staff 9	40,000	0	0.00%
Staff 10	40,000	2,400	6.00%
Staff 11	40,000	0	0.00%
Staff 12	40,000	6,000	15.00%
Staff 13	40,000	2,400	6.00%
Staff 14	40,000	0	0.00%
Staff 15	40,000	2,400	6.00%
Staff 16	40,000	0	0.00%
Staff 17	40,000	0	0.00%
Staff 18	30,000	3,000	10.00%
Staff 19	30,000	2,222	7.41%
Staff 20	30,000	1,800	6.00%
NHCG AVERAGE ADP			4.00%
TOTALS	\$ 1,560,000	\$ 83,422	



DISCRIMINATION TESTS

ACTUAL DEFERRAL PERCENTAGE TEST (2 Steps!)
TAKE BACK - CORRECTION RULE

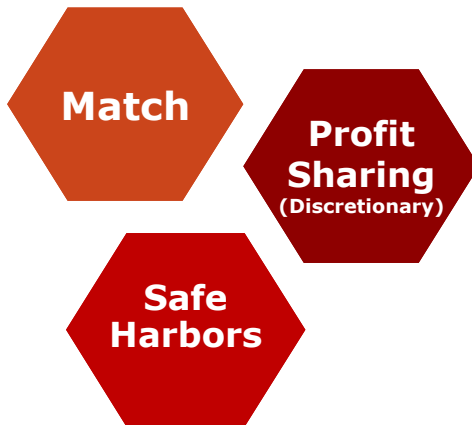
PARTICIPANT NAME	ELIGIBLE COMPENSATION	ORIGINAL DEFERRALS	DEFERRALS TO PASS	ADP NEEDED TO PASS	TOTAL TAKE BACK AMOUNT
<i>STEP #1</i> -Determine the amount that must be taken back by reducing the highest deferral percentage until the average = 6.00%					
HC 1	\$ 280,000	\$ 19,000	\$ 16,800	6.00%	\$ 2,200
HC 2	200,000	19,000	12,000	6.00%	7,000
HC 3	150,000	9,000	9,000	6.00%	0
		\$ 47,000	\$ 37,800	6.00%	\$ 9,200

PARTICIPANT NAME	ELIGIBLE COMPENSATION	ORIGINAL DEFERRALS	DEFERRALS TO PASS	INDIVIDUAL TAKE BACK AMOUNT
<i>STEP #2</i> -Reduce the deferrals of those with the highest dollar amount until total = \$9,200				
HC 1	\$ 280,000	\$ 19,000	\$ 14,400	4,600
HC 2	200,000	19,000	14,400	4,600
HC 3	150,000	9,000	9,000	0
		\$ 47,000	\$ 37,800	\$ 9,200

HC 1 is over age 50 at the end of the year. HC 1 can reclassify up to \$6,000 as catch up, thus no deferrals are returned.
HC 2 is under age 50 and not eligible for catch up. HC 2 must return \$4,600 adjusted for earnings/losses.



TYPES OF EMPLOYER CONTRIBUTIONS



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MATCHING CONTRIBUTION

STRATEGIES:

- ⦿ Caps - \$ OR %
- ⦿ Sets a target for participants
- ⦿ Sets budget cap for the employer

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MATCHING CONTRIBUTION

Examples of most popular Matches:

- \$0.50 per \$1.00 up to 6% of Wages
- \$0.25 per \$1.00 up to 8% of Wages
- \$1.00 per \$1.00 up to 4% of Wages



TIMING OF EMPLOYER CONTRIBUTIONS

Q: When are Employer contributions due to the Plan?

A: By the time the Company's tax return is due...including extensions.

 **KEY!!**

- Notify CPA
- Check Company Tax Returns!!



**ISSUE: Fund Employer
Contributions as you go or wait
until year-end?**

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**TIMING OF EMPLOYER
CONTRIBUTIONS**

OPTION #1 FUND AFTER YEAR-END

1. Contributions still deductible for prior year.
2. Contributions calculated just once (correctly).
3. No issues with taking back pre-funded contributions to partially vested participants.
4. Company has use of funds.

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TIMING OF EMPLOYER CONTRIBUTIONS

OPTION #2 FUND MATCH AS YOU GO

1. Employees may perceive this as a benefit.
2. Match is calculated for each payroll (high chance of error).
3. Must be careful to not pay out terminated employee until vesting and other contribution issues are solved.



Although you get to decide.
Our recommendation...
Fund after year-end.

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SAFE HARBOR

- **Designed to Avoid Testing**
 - Some History
 - Created around 1998
 - Exploded around 2001
- **An employer can make one of the following contributions:**
 - Safe Harbor Nonelective (Fixed Percentage)
 - 3% of compensation
 - **Safe Harbor Match**
 - #1 - 100% on the first 4% of employee deferrals**
 - OR**
 - #2 - 100% on the first 3% of employee deferrals plus
50% on the next 2% of employee deferrals**
- **Both must be 100% vested**
- **No last day provision**

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SAFE HARBOR

- **Notice requirements**
 - 30 to 90 days PRIOR to the beginning of the Plan year!
- **Full-year commitment**
 - Must make Safe Harbor contribution for the ENTIRE Plan Year.



SAFE HARBOR

- **No ADP Test (For employee contributions)**
- **No ACP Test (For matching contributions)**
- **Exempt From Top Heavy Rules**
 - What are those?
 - Let's discuss...



REMOVING SAFE HARBOR

How to undo Safe Harbor mid-year:

- Notice to employees—
TIMING: at least 30 days before removal
- Must test for discrimination—ENTIRE YEAR
- Must fund Safe Harbor through date of removal
- Must meet “Top Heavy” rules
- Plan sponsor must be operating at an economic loss



TOP HEAVY

A Plan is Top Heavy if:

The total of the accounts of all Key Employees, as of the **Determination Date**, exceeds 60% of the total of all accounts for all employees.

Q: *SO WHAT DOES IT MEAN?*

A: Generally a mandatory 3% Employer Contribution



SAFE HARBOR EXAMPLES

SAFE HARBOR 3% NON-ELECTIVE CONTRIBUTION

FOR THE YEAR ENDING DECEMBER 31, 2019

PARTICIPANT NAME	ELIGIBLE COMPENSATION	SALARY DEFERRALS	CATCH UP	ADP	SAFE HARBOR	SAFE HARBOR AS A % OF COMPENSATION
<i>Highly Compensated Group:</i>						
HC 1	\$ 280,000	\$ 19,000	\$ 6,000	6.79%	\$ 8,400	3.00%
HC 2	45,000	19,000	6,000	42.22%	1,350	3.00%
HC 3	150,000	6,000	0	4.00%	4,500	3.00%
HCG AVG. ADP				17.67%		
<i>Non-Highly Compensated Group:</i>						
Staff 1	70,000	3,500	0	5.00%	2,100	3.00%
Staff 2	60,000	6,000	0	10.00%	1,800	3.00%
Staff 3	50,000	0	0	0.00%	1,500	3.00%
Staff 4	40,000	1,400	0	3.50%	1,200	3.00%
TOTALS	\$ 695,000	\$ 54,900	\$ 12,000		\$ 20,850	
NHCG AVG. ADP				4.63%		



SAFE HARBOR EXAMPLES

SAFE HARBOR MATCHING CONTRIBUTION

FOR THE YEAR ENDING DECEMBER 31, 2019

PARTICIPANT NAME	ELIGIBLE COMPENSATION	SALARY DEFERRALS	CATCH UP	ADP	\$1 FOR \$1 UP TO 4% OF COMPENSATION	ACP
<i>Highly Compensated Group:</i>						
Owner	\$ 280,000	\$ 19,000	\$ 6,000	6.79%	\$ 11,200	4.00%
Owner Spouse	45,000	19,000	6,000	42.22%	1,800	4.00%
HC	150,000	6,000	0	4.00%	6,000	4.00%
HCG AVG. ADP				17.67%		
<i>Non-Highly Compensated Group:</i>						
Staff 1	70,000	3,500	0	5.00%	2,800	4.00%
Staff 2	60,000	6,000	0	10.00%	2,400	4.00%
Staff 3	50,000	0	0	0.00%	0	0.00%
Staff 4	40,000	1,400	0	3.50%	1,400	3.50%
TOTALS	\$ 695,000	\$ 54,900	\$ 12,000		\$ 25,600	
NHCG AVG. ADP				4.63%		

Analysis:

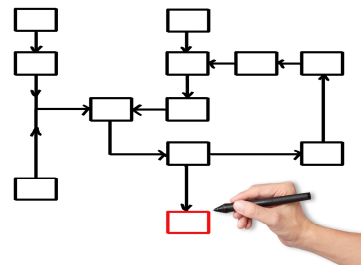
401(k) and Match to Owners	\$ 63,000
Match to Staff	\$ 12,600
% to Owners	83.33%



DISCRETIONARY PROFIT SHARING

What is Cross Testing?

- A creative or targeted way of allocating Company profit sharing dollars
- The ability to skew the contribution in favor of specific employees
- Must be a provision in the Plan Document



DISCRETIONARY PROFIT SHARING

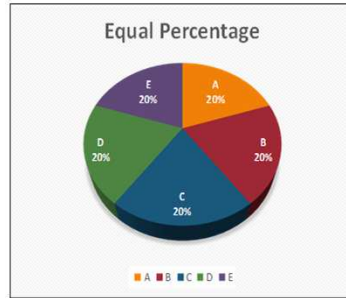
- An employer can make one of the following discretionary profit sharing contributions:
 - **Cross Tested** (most flexible)
The nonelective contribution will depend on how much compensation the participant received during the year as well as the group to which they were assigned. The employer may contribute a different amount on behalf of each group. The amount contributed on behalf of each group will be allocated proportionately based on each participant's wages as compared to the total compensation of all participants in the designated group. Popular. (Used with older owners and younger staff.)
 - **Pro-rata**
All eligible participants receive the same percentage of contribution.
 - **Integrated** (skewed based on compensation only)
The contribution will be allocated to the participant's account in the same proportion as their compensation plus their compensation in excess of a percentage of the Social Security Wage Base. The maximum amount that can be allocated in this first step varies and is dependent upon the integration level.
- **Subject to Vesting**
- **Subject to Last Day**

PPA

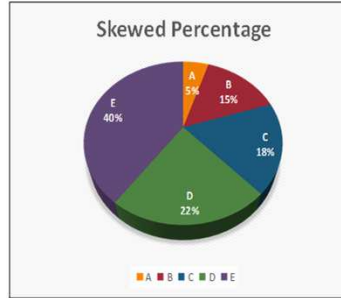
DISCRETIONARY PROFIT SHARING

Dividing up the pie...

Equal %



Skewed



DISCRETIONARY PROFIT SHARING

DISCRETIONARY PROFIT SHARING
 CROSS TESTED - EACH IN OWN GROUP
 3% SAFE HARBOR NONELECTIVE CONTRIBUTION
 FOR THE YEAR ENDING DECEMBER 31, 2019

Participant Name	Date of Birth	Age as of 12/31/19	Compensation	Contributions					Total
				Salary Deferrals	Catch Up	3.00% Safe Harbor	Profit Sharing		
HC 1	07/21/52	67	\$ 280,000	\$ 19,000	\$ 6,000	\$ 8,400	\$ 28,600	\$ 62,000	
HC 2	03/05/58	61	280,000	19,000	6,000	8,400	15,000	48,400	
HC 3	08/01/65	54	280,000	19,000	6,000	8,400	10,000	43,400	
HC 4	04/12/75	44	150,000	19,000	0	4,500	5,000	28,500	
HC 5	06/06/82	37	200,000	0	0	0	0	0	
Staff 1	07/11/68	51	100,000	0	0	3,000	1,380	4,380	
Staff 2	06/28/75	44	80,000	4,800	0	2,400	5,000	12,200	
Staff 3	02/14/77	42	70,000	7,000	0	2,100	966	10,066	
Staff 4	04/22/50	69	70,000	5,600	0	2,100	966	8,666	
Staff 5	12/10/79	40	60,000	0	0	1,800	828	2,628	
Staff 6	05/02/80	39	60,000	3,000	0	1,800	828	5,628	
Staff 7	01/08/89	30	50,000	0	0	1,500	690	2,190	
Staff 8	08/25/68	51	50,000	500	0	1,500	690	2,690	
Staff 9	09/20/92	27	50,000	0	0	1,500	690	2,190	
Staff 10	07/13/88	31	40,000	0	0	1,200	552	1,752	
TOTALS			\$ 1,820,000	\$ 96,900	\$ 18,000	\$ 48,600	\$ 71,190	\$ 234,690	

% TO OWNERS - PROFIT SHARING & SAFE HARBOR 73.71%



DISCRETIONARY PROFIT SHARING

DISCRETIONARY PROFIT SHARING
PRO-RATA
FOR THE YEAR ENDING DECEMBER 31, 2019

PARTICIPANT NAME	ELIGIBLE COMPENSATION	SALARY DEFERRALS	ADP	PROFIT SHARING	PROFIT SHARING AS A % OF		TOTAL
					COMPENSATION	TOTAL	
<i>Highly Compensated Group:</i>							
HC 1	\$ 280,000	\$ 19,000	6.79%	\$ 37,164	13.27%	\$	56,164
HC 2	280,000	19,000	6.79%	37,164	13.27%		56,164
HC 3	150,000	6,000	4.00%	19,909	13.27%		25,909
HCG AVERAGE ADP			5.86%				
<i>Non-Highly Compensated Group:</i>							
Staff 1	70,000	3,500	5.00%	9,291	13.27%		12,791
Staff 2	60,000	6,000	10.00%	7,964	13.27%		13,964
Staff 3	50,000	0	0.00%	6,636	13.27%		6,636
Staff 4	40,000	1,600	4.00%	5,309	13.27%		6,909
NHCG AVERAGE ADP			4.75%				
TOTALS	\$ 930,000	\$ 55,100		\$ 123,437		\$	178,537



DISCRETIONARY PROFIT SHARING

DISCRETIONARY PROFIT SHARING
CROSS TESTED - EACH IN OWN GROUP
TARGETED CONTRIBUTIONS
FOR THE YEAR ENDING DECEMBER 31, 2019

Participant Name	Date of Birth	Age as of 12/31/19	Compensation	Contributions					Total
				Salary Deferrals	Catch Up	3.00% Safe Harbor	Profit Sharing		
HC 1	07/21/52	67	\$ 280,000	\$ 19,000	\$ 6,000	\$ 8,400	\$ 28,600	\$	62,000
HC 2	03/05/66	53	280,000	19,000	6,000	8,400	3,920		37,320
HC 3	09/18/64	55	280,000	0	0	8,400	0		8,400
Staff 1	04/22/70	49	70,000	3,500	0	2,100	980		6,580
Staff 2	05/02/80	39	60,000	3,000	0	1,800	840		5,640
Staff 3	07/11/65	54	50,000	0	0	1,500	700		2,200
Staff 4	10/17/60	59	40,000	1,600	0	1,200	560		3,360
Staff 5	06/06/82	37	100,000	6,000	0	3,000	10,000		19,000
Staff 6	10/22/75	44	40,000	0	0	1,200	560		1,760
Staff 7	09/20/79	40	60,000	2,000	0	1,800	840		4,640
Staff 8	06/28/77	42	80,000	2,400	0	2,400	1,120		5,920
TOTALS			\$ 1,340,000	\$ 56,500	\$ 12,000	\$ 40,200	\$ 48,120	\$	156,820



What if
\$56,000/\$62,000
is not enough?



Add a Cash Balance Plan

PPA

DISCRETIONARY PROFIT SHARING

COMBO PROFIT SHARING & CASH BALANCE 3% SAFE HARBOR NONELECTIVE CONTRIBUTION FOR THE YEAR ENDING DECEMBER 31, 2019

Participant Name	Date of Birth	Age as of 12/31/19	Compensation	Contributions					Total
				Salary Deferrals	Catch Up	Safe Harbor 3%	Profit Sharing	Cash Balance	
HC 1 - Owner	03/02/57	62	\$ 280,000	\$ 19,000	\$ 6,000	\$ 8,400	\$ 7,800	\$ 195,000	\$ 236,200
HC 2 - Spouse	06/01/60	59	36,000	19,000	0	1,080	1,260	900	22,240
Staff 1	07/03/81	38	37,994	0	0	1,140	1,330	950	3,420
Staff 2	08/14/73	46	42,744	4,800	0	1,282	1,496	1,000	8,578
Staff 3	07/11/56	63	52,057	0	0	1,562	1,822	1,000	4,384
Staff 4	10/17/86	33	35,759	480	0	1,073	1,252	894	3,699
Staff 5	12/16/53	66	49,040	1,800	0	1,471	1,716	1,000	5,987
Staff 6	12/06/64	55	40,789	806	0	1,224	1,428	1,000	4,458
Staff 7	12/27/77	42	19,542	0	0	586	684	489	1,759
Staff 8	02/13/74	45	42,442	839	0	1,273	1,485	1,000	4,597
Staff 9	02/16/78	41	39,236	0	0	1,177	1,373	981	3,531
Staff 10	08/21/59	60	52,659	3,250	0	1,580	1,843	1,000	7,673
TOTALS			\$ 728,262	\$ 49,975	\$ 6,000	\$ 21,848	\$ 23,489	\$ 205,214	\$ 306,526
TOTAL EMPLOYER CONTRIBUTION			\$250,551	% TO OWNERS		85.6%			
AMOUNT TO OWNERS			\$214,440						
AMOUNT TO STAFF			\$36,111						
EST. TAX SAVINGS (@40%)			\$100,220						

PPA

SECURITY ISSUES & 401(k) PLANS

401(k) PLANS ARE UNDER ATTACK!
(Trillions of dollars are at stake!!)

Participant or Trustee

- Identity Theft
- Cyberthreats
- Fraud

PPIA

SECURITY ISSUES & 401(k) PLANS

Review Procedures & Practices

- Sending, receiving, storing Participant data
- Verify identity of all participants, beneficiaries or other interested parties involved with distributions
- Areas to watch—terminated employees, remote employees, former employees who had access to sensitive payroll data

PPIA

SECURITY ISSUES & 401(k) PLANS

WHAT TO DO?

1. Develop a written Data Sharing policy.
2. Verify the identity of all employees or beneficiaries requesting distributions.
3. Work with your TPA, investment platform, and investment advisors to verify sensitive data.
4. Take on the attitude of “professional skepticism”.



Thom Shola
AVP RPS
IT Cyber Security Officer



Fiduciary Responsibility



FIDUCIARY RESPONSIBILITY

NEW – Fiduciary Standards

Rule vacated March 15, 2018 in
Chamber of Commerce vs. DOL

The proposed standard was to:

“Act in the best interest of the client”
(the plan and its participants).

The Securities and Exchange Commission (SEC) recently adopted a new set of Regulation Best Interests governing Investment Advisors, to become enforceable as of June 2020.



FIDUCIARY RESPONSIBILITY

Who is a “Fiduciary” under ERISA?

- Any person who exercises any discretionary authority or control over the Plan’s management;
- Any person who exercises any authority or control over the management or disposal of Plan assets;
- Any person who renders investment advice for a fee or other compensation, with respect to Plan funds or property; or
- Any person who has discretionary authority or responsibility in the Plan’s administration.



FIDUCIARY RESPONSIBILITY

Fiduciary or not?

Description:	YES	NO
Someone who calculates service and compensation for benefits?		✓
Someone who prepares communications to employees?		✓
Someone who maintains participant service and employment records?		✓
Someone who prepares reports required by governmental agencies?		✓
Someone who explains the Plan to new participants and advises participants of their rights and options under the Plan?		✓
Someone who collects contributions and applies them to the Plan?		✓
Is the Plan Trustee a Fiduciary?	✓	



FIDUCIARY RESPONSIBILITY

What are your Fiduciary Responsibilities under ERISA?

- Understanding the terms of the Plan
- Selecting and monitoring service providers
- Making timely contributions to the Plan's funds
- Avoiding prohibited transactions
- Making timely disclosures to the Plan participants
- Making timely reports to the government
- Supreme Court confirms ongoing duty to monitor investments and remove & improve those that are imprudent. Six year statute of limitations is not applicable. (*Tibble v. Edison*)



3(16) Services

- **Base**
- **Premium**
- **Plan Governance**



For more information,
call 800-419-5549

TRUSTEE CHECKLIST

FEES & EXPENSES

- Monitor** the fees and expenses being paid by the Plan.
- Confirm** that the fees and expenses charged to the Plan are **reasonable**.
- Timely disclose** all of the fees and expenses being paid by the Plan to all of the participants.
- Document** your reviews and decisions made with respect to the fees and expenses being paid by the Plan.

INVESTMENTS

- Maintain** a written Investment Policy Statement for the Plan.
- Confirm** that Plan participants have a broad range of reasonable investment options for the Plan.
- Review** the investment options at least annually, to ensure that the investment options continue to meet the requirements set forth in the Plan's Investment Policy Statement.
- Document** your reviews and decisions made with respect to the investment options available to the participants.



TRUSTEE CHECKLIST

SERVICE PROVIDERS

- Monitor** all experts and providers retained to provide services for the Plan to ensure they are meeting the performance standards set for them.
- Communicate** with multiple service providers to ensure that services are integrated in a timely, accurate, and cost efficient manner.
- Document** your reviews and decisions made with respect to the service providers working for the Plan.

PLAN ADMINISTRATION

- Confirm** that the payroll processor is accurately and timely withholding and reporting all deferrals and contributions.
- Confirm** that all eligible employees are timely enrolled according to the provisions of the Plan.
- Work closely with your PPA Administrator** to ensure that all reporting and compliance matters are completed timely.
- Document** your work with respect to the administration of the Plan.



TRUSTEE CHECKLIST

EDUCATION

- Maintain** a written Education Policy Statement for the Plan.
- Deliver** a current Summary Plan Description to all employees. Redistribute the Summary Plan Description or distribute a Summary of Material Modifications whenever Plan design changes dictate, and provide Summary Annual Reports and any required notices based on Plan design.
- Arrange** for seminars to educate participants about the Plan, the importance of saving for retirement, and the basics of investing.
- Confirm** that the Financial Advisor for the Plan is readily available for meetings with participants.
- Arrange** for employee education meetings, at least annually, in collaboration with PPA and the Plan's Financial Advisor.
- Monitor** the education strategies and opportunities at least annually to ensure that they continue to meet the standards set out in the Plan's Education Policy Statement.
- Document** your reviews and decisions made with respect to the participant education strategies for the Plan.



EMPLOYEE EDUCATION

Materials

- Summary Plan Description (SPD)
- Enrollment Forms
- Beneficiary Designation Form
- Safe Harbor Notice (if applicable)
- Annual Fee Disclosure
- Annual/Quarterly Participant Statements
- Administrative Notebook
- Auto Enrollment Notice (if applicable)
- QDIA Notice (if applicable)

Communication Channels

- Annual Employee Plan Review Meeting
- Financial Advisor
- Investment Platform
- Human Resources
- Your Third Party Administrator



FEE DISCLOSURE

- **ERISA §408(b)(2)**

Fee Disclosures to **Plan Sponsors**

Intended to ensure that Responsible Plan Fiduciaries (RPFs) have all information necessary to make decisions when selecting and monitoring covered service providers

- **ERISA §404(a)(5)**

Fee Disclosures to **Plan Participants**

Intended to ensure that participants & beneficiaries are sufficiently informed to make decisions about managing the investments in their individual accounts



FEE DISCLOSURE

Quarterly Disclosures

- Disclose actual fees deducted from participant accounts
- Due 45 days after the end of each calendar quarter following the quarter in which the plan must provide initial disclosures

Annual Disclosures

- Disclose fees and other expenses that might be deducted from a participant's account (e.g. loan, hardship withdrawal, QDRO, distribution fees, etc). Also provide investment expense ratios and benchmarks.
- Due at new enrollment (part of enrollment packet), any time changes are made to the Plan, and at least once during each year.



VESTING

- Participant's ownership in their account balance
- Vested account balance equals the portion that is non-forfeitable



VESTING

Years of Service	(1) Cliff	(2) Graded
1	0%	0%
2	0%	20%
3	100%	40%
4	100%	60%
5	100%	80%
6	100%	100%

A Plan can have more liberal vesting schedules



VESTING

Vesting schedules are ignored and 100% vesting occurs if:

- A participant reaches normal retirement age
- A Plan is terminated, a partial termination occurs, or contributions are completely discontinued
- The Plan allows, when a participant dies or becomes disabled



VESTING

Partial Plan Termination

- 20% of plan participants terminated by company
- Affects ONLY terminated employees
- 100% vesting for those affected



FORFEITURES

Unvested money left in the Plan when a participant is paid out their vested balance. Forfeited funds can be used in four ways:

- Allocate to participants
- Reduce employer contributions
- Pay certain Plan expenses
- **NEW!** Can now fund Safe Harbor contributions



QUESTIONS? SEND EMAIL TO:

SeminarQuestions@ppatpa.com

**THANK YOU FOR
ATTENDING**