NRS
NATIONAL RETIREMENT SERVICES, INC.

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PAYROLL TAX CUT PROVIDES SOURCE OF ADDITIONAL SAVINGS

The lame duck Congressional session last December provided a new source of potential employee retirement savings in the form of reduced payroll taxes. Scheduled to be fully implemented by the end of March 2011, the Social Security tax rate was reduced a full 2% of pay for workers earning $106,800 or less in 2011. For the 2011 calendar year only, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reduces employee taxes for Social Security retirement and disability benefits from 6.2% to 4.2% of covered earnings. “Covered earnings" in 2011 equal earnings up to $106,800. This rate cut results in a full 2% of gross pay being added to most workers take home paychecks for the year.

Implementation Delays Approved by IRS

Due to the late enactment of the tax relief legislation, employers had until the end of January 2011 to implement the rate reduction. According to guidance issued in late December (IR-2010-124), employers are encouraged to use new lower withholding tables as soon as possible in 2011, but the IRS allows employers until the end of January to update their payroll systems. To the extent employers are slow in implementing the 2011 tax cut, any 2011 overpayments must be adjusted by an offsetting amount no later than March 31, 2011.

Retirement Savings Source

The reduction in contributions to the Social Security System will not cost employees any benefits, according to the new law, and cash flow shortages to Social Security will be made up from the US Treasury General Fund. While employees are free to use the added take home pay any way they see fit, some employers are encouraging their employees to consider using the unexpected added net income as added contributions to the company 401(k) plan. This represents a painless way of either initiating salary deferrals or increasing existing salary deferrals to the company retirement plan. Special periods for plan salary deferral rate changes can be established during the 2011 first quarter to accommodate employees wanting to “bank” their windfall. Some plans are even allowing employees to elect to defer up to 100% of any adjustment they may receive during the first quarter when prior over-withholding amounts are adjusted.

IRS USER FEES ESCALATE DRAMATICALLY IN 2011

The IRS has increased a large number of IRS user fees for retirement plan related services that the IRS provides. Effective February 1, 2011, fees for retirement plan reviews and issuance of associated determination letters have more than doubled in many instances. For example, the fee for an IRS review of a newly adopted plan increased from $1,000 to $2,500, while the fee to review and approve a plan termination increased from $1,000 to $2,000. However, the fee to review and issue a formal favorable tax determination letter for a pre-approved plan adoption or amendment remains unchanged at $300. Fees charged for submissions involving discrimination or coverage testing are also increased by 80% to 120%.

Because of the wide spread use of pre-approved plan documents, requests for IRS reviews of new plans using these documents have decreased dramatically. Cash Balance defined benefit plans are not pre-approved and employers who sponsor them usually request IRS review for new plans. Fortunately, most employers with Cash Balance plans are excused from paying service fees for a

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new plan as long as the plan covers at least one Non-Highly Compensated Employee and the employer employs no more than 100 employees. Employers that terminate retirement plans are well advised to request and obtain approval of the termination in the form of a formal letter, notwithstanding the fee increase. This is because nearly all terminating plans contain required amendments adopted after the most recent pre-approved plan restatement (such as the EGTRRA restatement) and language in these amendments is *not* pre-approved. In addition, a favorable IRS letter following a plan termination also covers operational issues and so provides a measure of protection in the event the plan is subsequently examined.

IRS REVERSES POSITION ON PREPARER APPLICATION SYSTEM

As reported in our November 2010 Newsletter, the IRS initiated a new online application system for paid tax return preparers to obtain a Preparer Tax Identification Number (PTIN) and several NRS employees have obtained these numbers to better serve our clients. In an abrupt about face, the IRS announced January 17, 2011 that the annual report Form 5500 does not require the signature of a paid preparer, eliminating that step for nearly every retirement plan. The exemption also applies to Paid preparers requests for IRS review and determination of retirement plans. However, Form 5330 (used when paying an excise tax due to a retirement plan related transaction), continues to require a PTIN. NRS will assist in preparing these forms where needed.

HOW ARE WE DOING? PLEASE COMPLETE THE NRS CLIENT SATISFACTION SURVEY!

We are grateful and thankful for the strong response to our Client Satisfaction Survey! In an effort to maintain high level client satisfaction, we need client feedback! The content of these replies will be sent directly to Executive Management. This survey takes less than 2 minutes to complete. To access the Client Satisfaction Survey, please go to our website www.NRServices.com, click on “Forms/Client Survey”, Enter the password (which is the current month i.e.: “January, February..”), click on Client Satisfaction Survey, then complete the form and submit.

As always, NRS truly values your continued business!

For more information or to request a proposal, please visit our website at www.NRServices.com, or for sales support, please contact:

CENTRAL & EASTERN TIME

Jim Houpt
Executive Vice President
T| (800) 627-1610 x 2207
E| jim.houpt@NRServices.com

PACIFIC & MOUNTAIN TIME

Kevin Spaeth
Sales Representative
T| (800) 350-2172 x 260
E| kevin.spaeth@NRServices.com