WHAT IS THE BEST QUALIFIED RETIREMENT PLAN DESIGN?

Employers who are either adopting a new employee retirement plan or revising an existing plan should be aware of provisions that can add flexibility and help reach the employer's business goals. Congress has passed tax laws that significantly favor "tax qualified" retirement plans. Selection of the retirement plan type, such as a 401(k), Profit Sharing, Money Purchase, traditional Defined Benefit plan, or Cash Balance plan will depend upon the size, stability, and profitability of the employer. Determining which employee groups will be eligible for the retirement plan often depends upon the employer's business objectives and practices. Likewise, the amount of benefits allocated to various employee groups is also influenced by the employer's preferences.

Defined Contribution Plan or Defined Benefit Plan?

When considering which type of retirement plan would be best suited for a business, employer objectives such as attracting and retaining employees, rewarding outstanding performance, administrative cost, and employee demographics are some of the factors to be considered. Plan cost is usually an important consideration. Defined Contribution plans, including 401(k) plans, provide greater flexibility and are easier to understand compared to Defined Benefit plans. However, Defined Benefit plans offer larger contributions, but require a commitment to funding. Generally, Defined Benefit plans tend to favor older, long service employees. Some retirement plans are designed as a "combo plan" featuring both a 401(k) Profit Sharing plan and a Defined Benefit pension plan. "Combo plans" frequently include a Cash Balance Defined Benefit plan since these plans permit great flexibility in benefits. Cash Balance plans mimic the accumulation of a profit sharing account and can favor younger employees (more so than a traditional Defined Benefit plan), unless the plan design dictates larger amounts for older participants.

On Page 2, you will see an example of a Defined Contribution, Safe Harbor 401(k) plan with a discretionary employer cross-tested profit sharing feature.

Thus, a 401(k) plan can consider the various ages of the participants, allow each *employee/participant* to make his/her own desired 401(k) salary deferrals, while maximizing the **business owner's** benefit, such that the owner receives ***almost 80%*** of the funds allocated in that plan year (see chart on Page 2). In comparison, a **Defined Benefit** retirement plan could provide an employer contribution to a 50-year-old owner of over $100,000/year.

Continued on Page 2

Title	Age of Participant	Compensation/Year of Participant	401(k) Deferral and "Catch-Up" Deferral	Employer Contribution	Total Amount Allocated to Participant
Owner	50	$265,000	$24,000	$35,000	$59,000
Manager - EE 1	40	$150,000	$1,500	$6,600	$8,100
Employee 2	40	$45,000	$450	$1,980	$2,430
Employee 3	35	$36,000	$360	$1,585	$1,945
Employee 4	30	$29,000	$290	$1,275	$1,565
Employee 5	20	$26,000	$260	$1,145	$1,405

Referenced from Page 1, Example of a DC, Safe Harbor 401(k) plan with a discretionary employer cross-tested profit sharing feature.

Is There a "Start-Up" Retirement Plan Design?

Since attracting and retaining personnel is a high employer priority, a 401(k) retirement plan is often adopted since it provides a tax advantaged means for all employees to save for retirement at contribution levels consistent with their preference. Many employers will match some or all of the elective contributions made by participants. Additionally, many 401(k) plans contain a Profit Sharing feature so that discretionary employer contributions can be made for the benefit of plan participants. Employer contributions may be subject to vesting requirements, which are typically designed to retain valued employees.

The plan must specify how employer contributions are allocated. Different formulas can be used to provide employer contributions to individual participants ranging from a simple compensation allocation, up to a totally flexible provision where the employer determines each year, the amount of each participant's share of total employer contributions. While the employer has discretion as to the amount allocated to each participant, a tax qualified plan must satisfy objective standards designed to prevent undue discrimination in favor of Highly Compensated Employees. You can visit our website, www.NRServices.com, to review our April 2016 newsletter which discusses the term "Highly Compensated Employee" and nondiscrimination.

Which Employees Will Benefit Most From the Retirement Plan?

Most employers know that eligibility requirements can be established to exclude short service, part-time, and young employees. A tax qualified retirement plan is also permitted to limit eligibility to

Continued on Page 3

specific employee groups, provided the plan meets objective nondiscrimination tests. These tests are designed to assure a cross section of both Highly Compensated Employees and Non-Highly Compensated Employees benefit as plan participants. It is important to know that certain departments or job titles may be excluded. Separate plan provisions can be established for different employee groups. For example, an employer might have a 401(k) feature available to all full-time employees who have completed 90 days of employment, but limit Profit Sharing plan participation to specific groups of employees who have completed one-year of service and attained age 21.

As this article briefly outlines, there are many unique plan design strategies available to customize an effective qualified retirement plan. Today, employers represent great diversity in terms of size, work force demographics, and business culture. Matching an employer's needs and expectations to a specific employee retirement plan design requires experience, diligence, and dedication.

At National Retirement Services, our mantra is **Accuracy, Responsiveness,** and **Timeliness.**

We can help!

REMINDERS FOR JULY

July 15 – Minimum funding requirements for Defined Benefit, Money Purchase, and Target Benefit plan years ended 10/31/15 must be met by July 15 in order to avoid excise taxes. An electronic transfer must be completed or a check mailed by this date.

July 15 – Forms 5500 Series/8955-SSA – Forms that are on extension are due for the Plan Year ended 9/30/15.

July 15 – Retirement plan employer contributions are due in order to be deducted on employer tax returns due to be filed July 15, 2016.

August 1 (As July 31 is a Sunday) – Forms 5500 Series/8955-SSA – Forms are due for 2015 calendar year plans that are not on extension.

August 1 – Form 5558 – "Application for Extension of Time to File Certain Employee Plan Returns" is due for 2015 calendar year plans that need additional time to file their Form 5500 Series returns.

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

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