

Business Planning Strategies

The **SECURE** Act | 2.0



Setting **E**very **C**ommunity up for **R**etirement **E**nhancement

MAP Retirement
www.MAP401k.com
920-720-0005



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Agenda

1. Market Overview
2. New Developments
3. Qualified Plans and Financial Planning
4. Case Studies
5. Practical Applications you can use today

¹ Census Bureau, 2016 <https://sbecouncil.org/about-us/facts-and-data/>; ² <https://www.cnbc.com/2019/09/30/small-firms-may-have-a-new-way-to-offer-401k-plans-to-their-workers.html>

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Agenda

Market Overview

Current State for Small Business



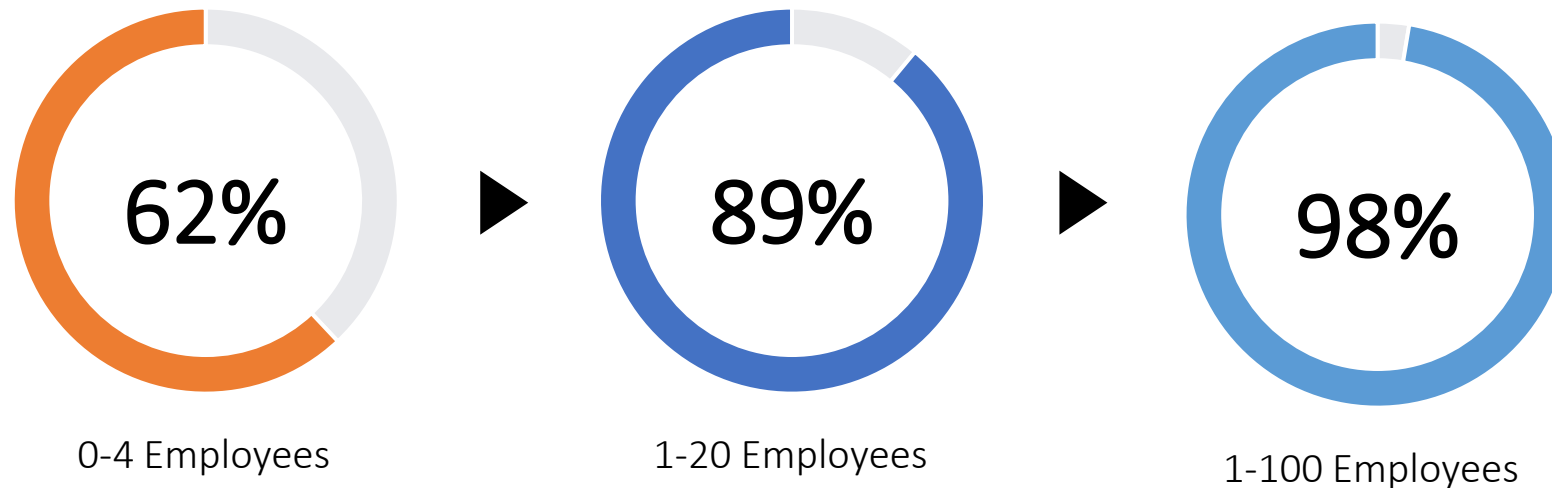
1 Census Bureau, 2016 <https://sbecouncil.org/about-us/facts-and-data/>; ² <https://www.cnbc.com/2019/09/30/small-firms-may-have-a-new-way-to-offer-401k-plans-to-their-workers.html>

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Current State for Small Business

**American Business Is Overwhelmingly Small Business:
30.7 million small business firms in the U.S.¹**

All Firms with paid employees: 5.95 million²



¹SBA, Office of Advocacy, Small Business Profile; <https://www.sba.gov/sites/default/files/advocacy/2019-Small-Business-Profiles-US.pdf>;

²<https://www.census.gov/data/tables/2016/econ/susb/2016-susb-annual.html>

The Good
News...

the Bad
News

Good News:

Small businesses account for **99.7%** of all employer firms and **more than half** of all private-sector employees¹

Bad News:

They are not a big source of retirement plan coverage:

- **47%** of small businesses with under 100 employees **don't currently offer** an employer sponsored retirement plan to their employees.²

¹ Census Bureau, 2016 <https://sbecouncil.org/about-us/facts-and-data/>; ² <https://www.cnbc.com/2019/09/30/small-firms-may-have-a-new-way-to-offer-401k-plans-to-their-workers.html>

Barriers to sponsoring a plan

Business owners will often cite the following reasons as barriers to sponsoring a plan:



Too expensive



Plan design too complex

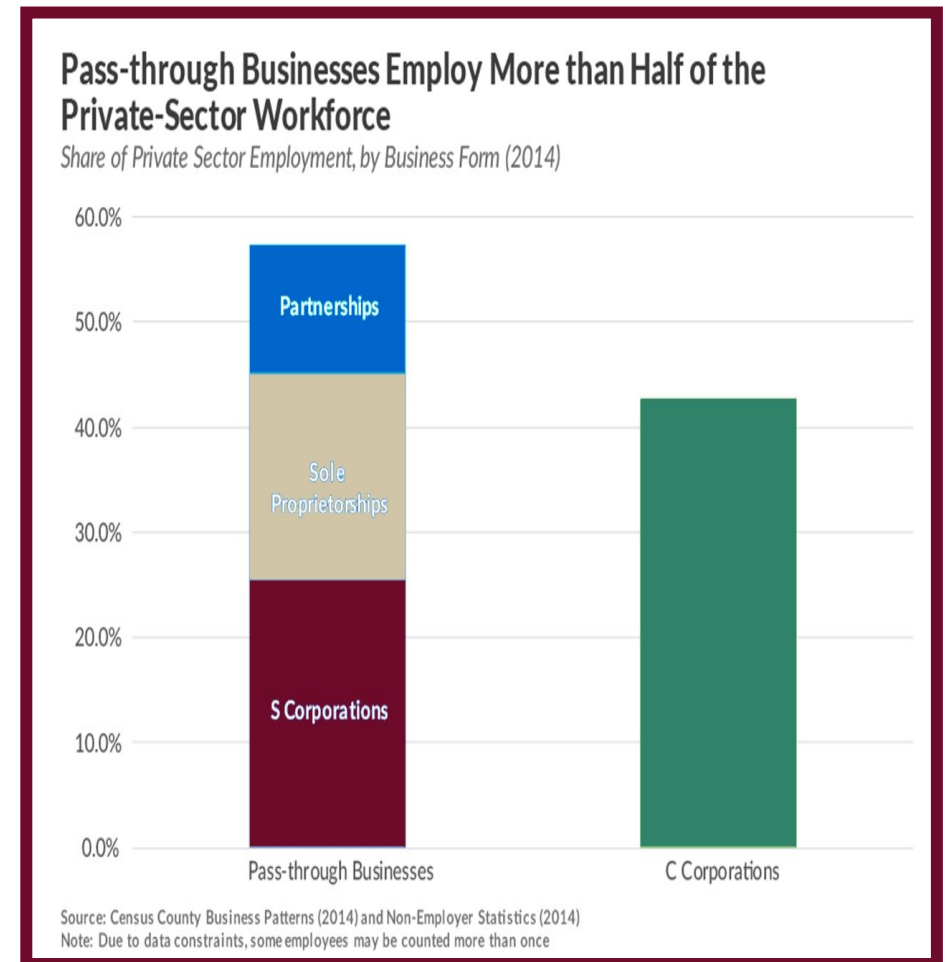


Testing limitations

Lack of understanding sometimes leads to lack of plan sponsorship, or to the selection of an inadequate plan type.

Distribution of Business Entities

- The majority of businesses in the United States are pass-through businesses (95%)¹
- Major Types of pass-through businesses :
 - ***Sole Proprietorships***
 - ***Partnership***
 - ***S Corporations***
- 53% of the U.S. private sector workforce was employed at a pass through business²



Source: ¹ Tax Foundation; <https://files.taxfoundation.org/20170124162950/Tax-Foundation-FF5361.pdf> ² IRS Statistics of Income; <http://www.irs.gov/uac/SOI-Tax-Stats-Nonfarm-Sole-Proprietorship-Statistics>

Agenda

New Developments

Retirement
Plan Provision
Effective Dates



Retirement Plan Provision Effective Dates

Plan Years Beginning
After December 31,
2019

Tax Credit

(Employer with less than 100 employees in the preceding plan year)

Start-up Plans

Greater of \$500.00 or the lesser of 50% of the plan expenses not exceeding \$5,000.00

\$250.00 per Non-highly compensated employees up to \$5,000.00

The tax credit applies for 3 years

Example: Robert Chin, Inc.

2 Highly Compensated Employees & 15 Non-Highly Compensated Employees

Cost for Plan to Employer

TPA Costs:

Legal Plan Document & Summary Plan Description \$1,900	
Annual Administration Cost	<u>\$2,500</u>
Total First Year TPA Costs	\$4,425
Recordkeeping Fee:	<u>\$ 750</u>
<u>Total Estimated First year Costs</u>	<u>\$5,175</u>

Lesser of 50% of the expenses not to exceed \$5,000 or \$250 per non-highly compensated employee.

Minimum \$500

Total Fee (TPA and Recordkeeping)	\$5,175.00
SECURE Act Adjustment	\$2,587.50
(\$5,175 x 50% = \$2,587.50)	
OR	
\$250 x 15 Non-Highly compensated	\$3,750.00

Tax Credit = (Lesser of option) \$2,587.50

Cost after credit (deductible business expense) \$2,587.50

Retirement Plan Provision Effective Dates

The required 401(k) Safe Harbor non-elective notice (3.00% of annual compensation) is eliminated

Employer may adopt the 401(k) Safe Harbor non-elective 3.00% of annual compensation during the current plan year provided.

No later than 30 days prior to the end of the current plan year

Employer may adopt the 401(k) Safe Harbor non-elective no later than the closing of the following plan year provided the Safe Harbor non-elective contribution is at least 4.00% of annual compensation

Plan Years Beginning After
December 31, 2019

Retirement Plan Provision Effective Dates

Plan Years Beginning
After December 31,
2019

Multiple Employer Plans (MEP) / Pooled Employer Plans (PEP)

- Extends coverage for defined contribution plans
- This is for employers with any number of employees
- There is no business or industry relationship required
- This is open to all employers who wish to join

Employer Considerations:

- Restricted plan design features
- Restricted investment options
- Small employer will be responsible to pay additional cost for the annual CPA audit services

Retirement Plan Provision Effective Dates

Plan Years Beginning
After December 31,
2019

Summary

Tax Credit on start-up plans

Starting a new plan for the prior year that ended

Failed ADP Discrimination test –

Adopt the Safe Harbor Non–Elective employer
contribution of 4.00% of annual compensation

Document in writing all client meetings.

The IRS has increased the enforcement on plan audits

Agenda

Small & Medium Business Retirement Plans

Qualified Plans and Financial Planning



Small Business Retirement Plans

Qualified Plans and Financial Planning

- Tax Deduction Contributions
- Tax Deferral on Investment Gains
- ERISA Plans not subject to Claims or Creditors
- Favorable Plan Designs Available
- In Plan Roth Conversion

The importance of income replacement in retirement

- The industry recommends a target retirement income replacement ratio of at least **75%**⁴
- Life expectancy is increasing, which means that the time spent in retirement is longer.
- Social Security is not enough on its own to fund the retirement savings needs of employees.
- There is a tendency for employees, particularly HCE's and business owners to begin saving later in life.
- Plan Design can help to maximize contributions towards retirement income savings to help save as much as possible.

⁴Income Replacement in Retirement, T.Rowe Price, 2019

**Plan Year
Cash Balance
Plan Design
Overview**

Fundamentals of a Cash Balance Plan

What is a 401(k)/Cash Balance Combo Plan?

Fundamentals of a Cash Balance Plan

Purpose of Cash Balance Plan

When a Defined Contribution plans allowable limits are not sufficient to satisfy the plan design of an employer. For the 2022 calendar year, the allowable limit is \$61,000 (or \$67,500, including 401(k) “catch-up” for a participant who has attained age 50 or older). In these situations, a Cash Balance Plan can be implemented or added as a second plan.

Nature of Cash Balance Plan

A Cash Balance Plan is a Defined Benefit Plan. Although an “account” is maintained for each participant in the plan, this account is really just a bookkeeping entry maintained by the actuary for the plan; no separate investment account is actually maintained.

Fundamentals of a Cash Balance Plan

Cash Balance Projection

Actuary prepares a plan design based on employee census data from the business, to include the following for each employee (a) date of birth, (b) date of hire, (c) annual compensation, and (d) annual hours worked, if less than 1,000.

NOTE: not all business owners need to receive equal Cash Balance Contributions. The non-participation by an business owner-employee can potentially increase the Cash Balance benefits available to the other owners. The Cash Balance benefits available to an employee depend on age, younger owners should understand that they might not be able to receive the full benefits enjoyed by other owners.

Interest on Cash Balance Plan Accounts

Interest is credited to each Cash Balance account on an annual basis, based on a specified rate or index (and subject to IRS rules). For example, a fixed rate of 5% is common in Cash Balance Plans.

Fundamentals of a Cash Balance Plan

Cash Balance Plan Funding

Since interest credits to Cash Balance accounts do not depend on actual investment performance, any experienced rate of return in excess of the crediting rate dictated by the plan (e.g., 5%) will reduce ongoing contributions to fund the benefit but will not increase the participant's account balance.

In this case, the business would contribute a lesser required amount. Conversely, if the actual rate of return in the plan is less than the targeted rate, the contribution requirement to fund the same benefit will increase.

Cash Balance Plan Investments

The plan assets in a Cash Balance Plan must be invested as a single, pooled account; no individual participant direction of accounts is permitted.

The plan assets in a Cash Balance Plan should be invested with the advice of a qualified investment advisor. Since the interest is credited to Cash Balance accounts is at a particular rate, the investment policy is typically weighted toward fixed income, as opposed to equity.

Fundamentals of a Cash Balance Plan

Cash Balance Plan Funding is **Not** Discretionary

Employer contributions to a Cash Balance Plan are not discretionary. The IRS requires all plan contributions must be paid within 8.5 months of the following plan year.

While future benefit accruals under a Cash Balance Plan can be reduced or discontinued prospectively (with a proper plan amendment and advance notice to participants), the employer remains responsible for funding any benefits accrued prior to the effective date of the “freeze.” Therefore, an employer should only adopt a Cash Balance Plan if it is comfortable with the required contribution levels for the foreseeable future.

What is a 401(k)/Cash Balance Combo Plan?

This is a *qualified retirement* plan that retains the *characteristics* of a traditional *defined benefit* plan

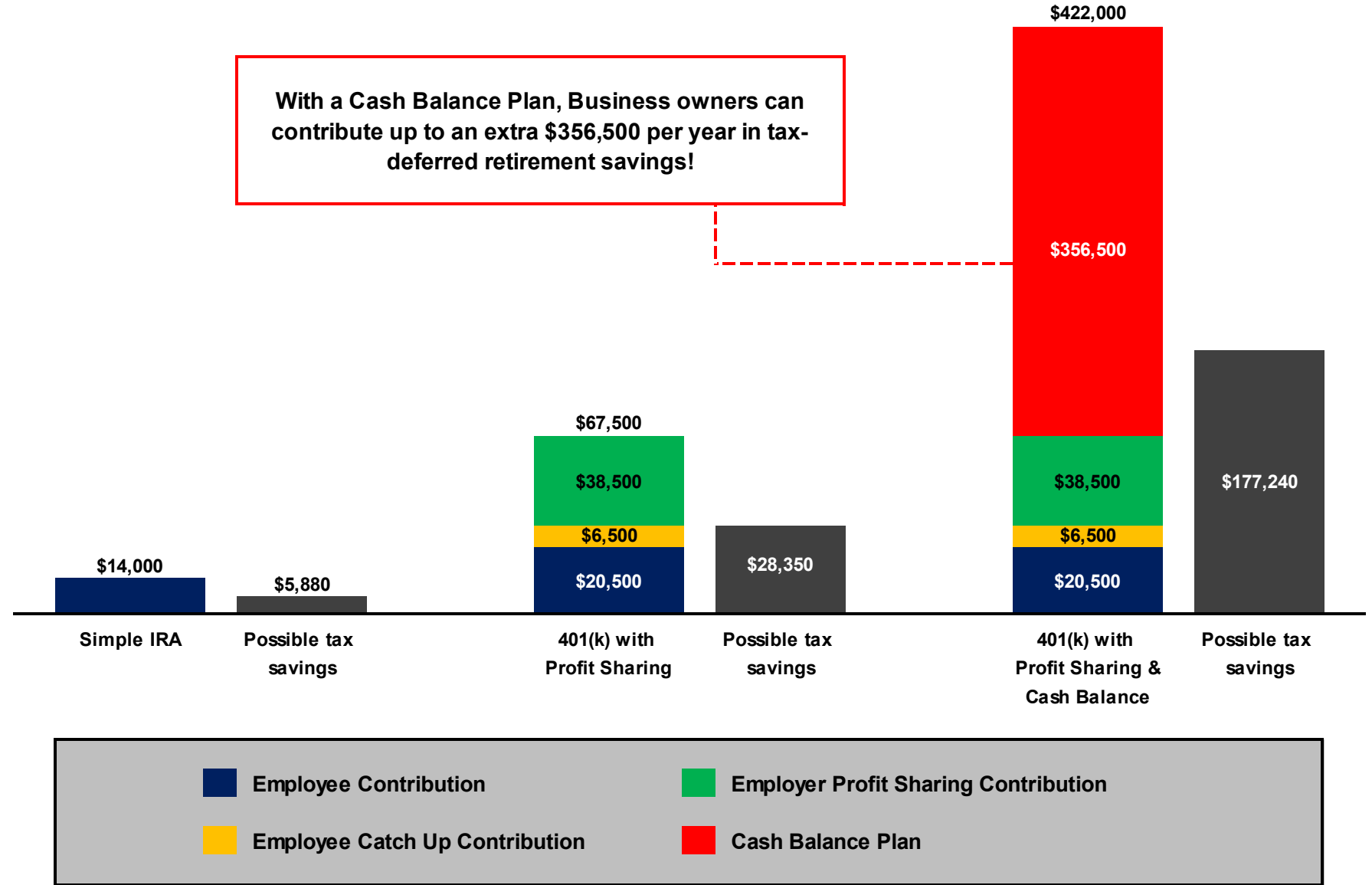
- Mandatory Employer Contributions
- Employer Contribution deadline – 8.5 months after the end of each plan year
- The actuary calculates the Annual Employer Contribution
- The value of the participants benefit is expressed as a “hypothetical” account balance
- Interest credits are based upon the participant’s prior account balance

What is a 401(k)/Cash Balance Combo Plan?

- Plans may be subject to Pension Benefit Guarantee Corporation premiums (fixed & variable) based upon the number of plan participants
- The plan investments are pooled and not participant-directed
- Maximum vesting schedule is 100% after 3 years
- Plan Design allows for the selection of individual employees to maximize their contribution while minimizing contributions to other employees

The power of a combo plan

Next Level planning



Tax savings assumes 37% Federal tax rate and 5% State tax rate. For illustration purposes only. Taxes are deferred. Cash Balance contributions are dependent on age, employee demographic of the group and will vary based on specific situations.

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Agenda

Case Studies



401(k)/Cash Balance Combo Plan

Design #1

Background:

- C-Corp
- Two Owners with 50/50 Ownership
- Save for retirement & maximize Employee/Employer Contribution

Recommendation:

- Start a 401(k)/Cash Balance Combo Plan
- Total Employee/Employer Contribution of \$678,506
 - Owners would receive \$622,031 or 91.68% of the total
 - Tax Savings alone would pay for the Staff Employees

401(k)/Cash Balance Combo Plan Design #1 2022 Plan Year

Name	Age	Plan Compensation	401(k) Deferrals Safe Harbor	%	Profit Sharing	%	Cash Balance Credit	%	Total Employer Contributions
Owner 1*	Age 58	305,000.00	27,000.00	0.00%	37,515.00	12.93%	232,013.00	80.00%	269,528.00
Owner 2*	Age 61	305,000.00	27,000.00	0.00%	37,515.00	12.93%	260,988.00	90.00%	298,503.00
NHCE 1	Age 26	40,000.00			1,200.00	3.00%	800.00	2.00%	4,960.00
NHCE 2	Age 29	50,000.00			1,500.00	3.00%	1,000.00	2.00%	5,300.00
NHCE 3	Age 31	60,000.00			1,800.00	3.00%	1,200.00	2.00%	6,840.00
NHCE 4	Age 41	70,000.00			2,100.00	3.00%	1,400.00	2.00%	6,125.00
NHCE 5	Age 51	80,000.00			2,400.00	3.00%	1,600.00	2.00%	7,000.00
NHCE 6	Age 61	90,000.00			2,700.00	3.00%	1,800.00	2.00%	7,875.00
NHCE 7	Age 58	100,000.00			3,000.00	3.00%	2,000.00	2.00%	8,750.00
NHCE 8	Age 71	110,000.00			3,300.00	3.00%	2,200.00	2.00%	9,625.00
Totals		1,210,000.00	54,000.00		18,000.00		101,505.00		505,001.00
									624,506.00

Potential 1 Year Tax Savings = **\$262,292.52**

Federal @ 37% = \$ 231,067.22
 State @ 5% = \$ 31,225.30

*MAP Retirement is not an accounting or tax firm; the potential tax saving is for illustration purposes. Please consult your tax professional. The illustration assumes the total illustrated employer contribution multiplied by the stated federal and state tax rate. The illustration does not account for individual tax saving from employee deferral, or other corporate taxes like payroll taxes.



401(k)/Cash Balance Combo Plan

Design #2

Background:

- C-Corp
- Three Owners Ages 58, 61 & 41
- Save for retirement & maximize Employee/Employer Contribution

Recommendation:

- Start a 401(k)/Cash Balance Combo Plan
- Total Employee/Employer Contribution of \$894,716.60
 - Three Owners would receive \$820,250 or 91.68% of the total
 - The Owner at age 41 will receive a Non-Qualified Deferred Compensation contribution of \$137,250 or \$167,750 to equalize individual contribution
 - Tax Savings alone would pay for the Staff Employees

401(k)/Cash Balance Combo Plan Design #2 2022 Plan Year

Name	Age	Plan Compensation	401(k) Deferrals	Safe Harbor	%	Profit Sharing	%	Cash Balance Credit	%	Total Employer Contributions
Owner 1*	Age 58	305,000.00	27,000.00		0.00%	40,500.00	12.93%	244,000.00	80.00%	284,500.00
Owner 2*	Age 61	305,000.00	27,000.00		0.00%	40,500.00	12.93%	274,500.00	90.00%	315,000.00
Owner 3*	Age 41	305,000.00	19,500.00		0.00%	40,500.00	12.93%	106,750.00	35.00%	147,250.00
NHCE 1	Age 26	40,000.00		1,200.00	3.00%	3,640.00	9.10%	800.00	2.00%	5,640.00
NHCE 2	Age 29	50,000.00		1,500.00	3.00%	1,935.00	3.87%	1,000.00	2.00%	4,435.00
NHCE 3	Age 31	60,000.00		1,800.00	3.00%	2,322.00	3.87%	1,200.00	2.00%	5,322.00
NHCE 4	Age 41	70,000.00		2,100.00	3.00%	2,709.00	3.87%	1,400.00	2.00%	6,209.00
NHCE 5	Age 51	80,000.00		2,400.00	3.00%	3,096.00	3.87%	1,600.00	2.00%	7,096.00
NHCE 6	Age 61	90,000.00		2,700.00	3.00%	3,483.00	3.87%	1,800.00	2.00%	7,983.00
NHCE 7	Age 58	100,000.00		3,000.00	3.00%	3,870.00	3.87%	2,000.00	2.00%	8,870.00
NHCE 8	Age 71	110,000.00		3,300.00	3.00%	4,257.00	3.87%	2,200.00	2.00%	9,757.00
NHCE 9	Age 36	50,000.00		1,500.00	3.00%	1,935.00	3.87%	1,000.00	2.00%	4,435.00
NHCE 10	Age 20	45,000.00		1,350.00	3.00%	1,890.00	4.20%	900.00	2.00%	4,140.00
NHCE 11	Age 25	48,000.00		1,440.00	3.00%	1,857.60	3.87%	960.00	2.00%	4,257.60
NHCE 12	Age 24	60,000.00		1,800.00	3.00%	2,322.00	3.87%	1,200.00	2.00%	5,322.00
Totals		1,718,000.00	73,500.00	24,090.00		154,816.60		641,310.00		820,216.60

Potential 1 Year Tax Savings **\$344,490.97**

Federal @ 37% = \$ 303,480.14

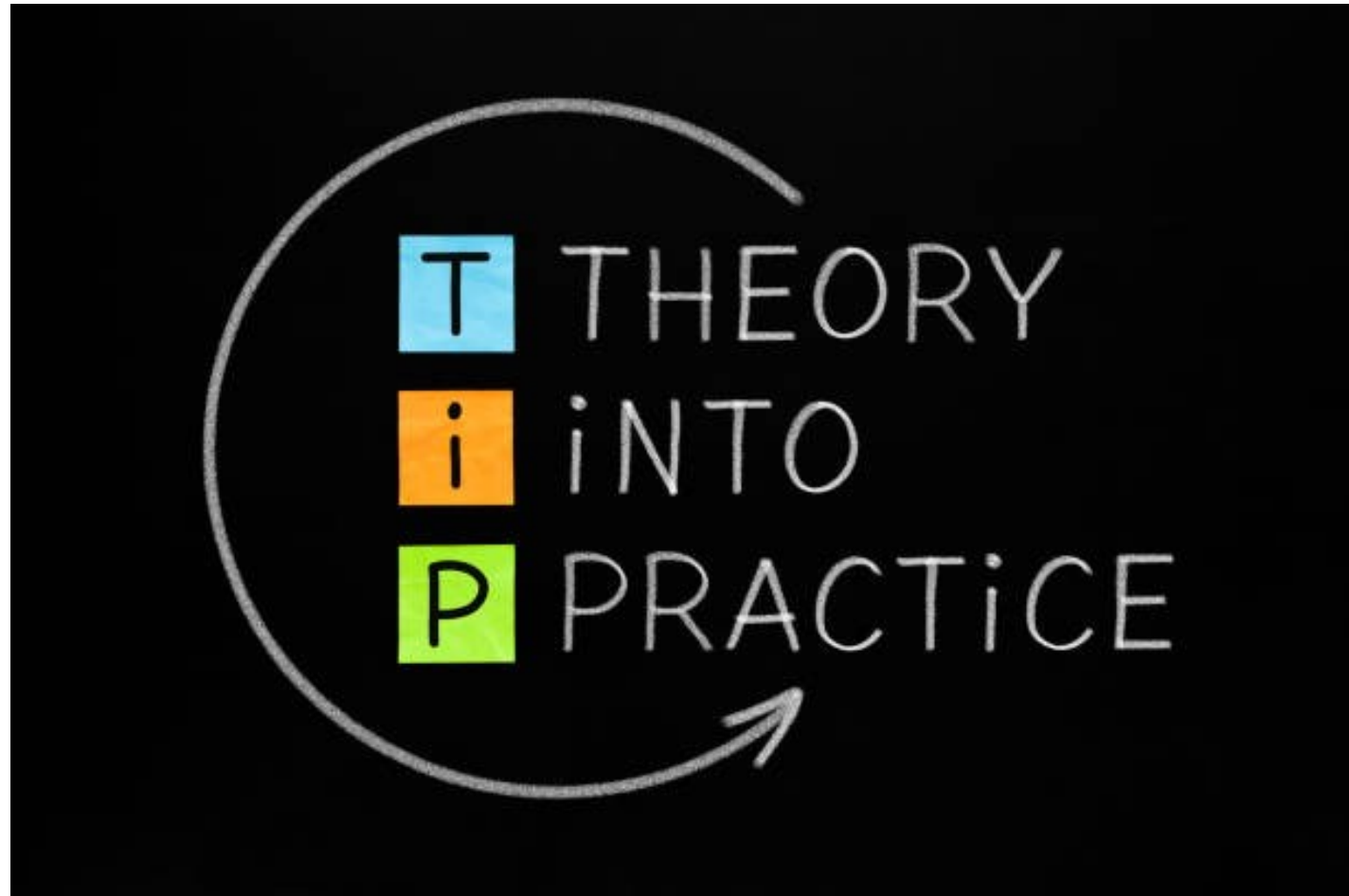
State @ 5% = \$ 41,010.83

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Agenda

Practical Applications you can use today



Building Client Value



This is a tool you need for profitable business clients



Most advisors don't know about Cash Balance Plans and the power of the combo plan design



Many CPAs don't know about this tool.
Talk to your CPA partners. It's a tax haven paradise




Have a different conversation with your business clients
Separate yourself from your competitors!

Let MAP help you


- MAP can be your partner and cash balance expert
- Run illustrations for you

ILLUSTRATION FOR:

SAMPLE MAP RETIREMENT USA CLIENT




Prepared By:
Bob Carroll
Partner



SAMPLE MAP RETIREMENT USA CLIENT
Deferral + Profit Sharing
+ Cash Balance Plan

SAMPLE MAP RETIREMENT USA CLIENT 2021 PROPOSED COMBO CONTRIBUTIONS									
NAME	Plan Compensation	401(k) Deferrals	Safe Harbor	%	Profit Sharing	%	Cash Balance Credit	%	Total Employer Contribution
Owner, Number 1	244,461.26	26,000.00	7,333.84	3.00%	4,183.16	1.71%	207,847.45	85.02%	219,364.45
Owner, Number 2	260,000.00	4,250.10	8,700.00	3.00%	4,962.41	1.91%	126,407.18	43.34%	140,069.60
Owner, Number 3	253,859.00	19,500.00	7,615.77	3.00%	4,343.98	1.71%	98,643.67	38.98%	110,603.41
Owner, Number 4	257,497.00	26,000.00	7,724.91	3.00%	4,406.23	1.71%	257,497.00	100.00%	269,628.14
Owner, Number 5	218,920.64	17,700.00	6,567.62	3.00%	3,746.12	1.71%	162,117.04	74.09%	172,430.78
Owner, Number 6	243,843.90	19,500.00	7,315.31	3.00%	4,172.59	1.71%	73,296.89	30.08%	84,794.79
Owner, Number 7	274,059.67	19,500.00	8,221.79	3.00%	4,689.65	1.71%	77,012.90	28.10%	89,924.34
Owner, Number 8	242,928.80	26,000.00	7,287.86	3.00%	4,156.94	1.71%	218,463.78	89.93%	229,908.58
Target Group	2,025,569.87	158,460.10	60,767.10	3.00%	34,661.08	1.71%	1,221,285.31	61.20%	1,316,714.09
All other Staff	869,638.54	75,330.91	26,089.16	3.00%	62,195.17	6.92%	17,392.77	2.00%	96,677.10
Total all Staff	2,895,208.41	233,791.01	86,856.25		96,856.25		1,238,678.08		1,413,391.19

% of Employer Contribution to Target Group



93.23%

Total % of Employer Contribution

Target Employee Group:
93.23%

Other HCE Employees:
N/A

All other Staff:
6.77%

Potential Tax Saving	Federal	37.00%	\$322,584.74
	State (Example)	5.00%	\$706,19.54
	Estimated Saving		\$593,204.30

Illustration Assumptions and Notes:

1. Plan will not be covered by the PBGC
2. Limited the DC plan to 6% of participating comp.
3. Maximized all owners in the CB plan, needed 2% to the NCHCE's to pass testing.
4. 4 NCHCE's required increase gateway in the DC plan to pass 401a.
5. Great looking plan, owner's ratio is approximately 93% of the total employer contribution between both plans.

0.00	2,823.56	3.00%	3,696.67	3.00%	1,892.38	2.00%	8,404.61
0.00	1,391.54	3.00%	1,822.91	3.00%	927.69	2.00%	4,142.14
5.18	1,378.03	3.00%	5,374.32	11.00%	918.69	2.00%	7,671.04
0.00	3,860.16	3.00%	5,056.81	3.00%	2,073.44	2.00%	11,490.42
7.73	1,785.00	3.00%	2,338.35	3.00%	1,190.00	2.00%	5,313.35
0.00	952.86	3.00%	3,957.34	11.00%	639.24	2.00%	5,149.43
0.00	1,697.23	3.00%	2,223.38	3.00%	1,131.49	2.00%	5,052.10
0.00	3,232.61	3.00%	4,234.72	3.00%	2,155.57	2.00%	9,622.60
9.79	1,405.85	3.00%	5,075.47	15.00%	599.90	2.00%	7,425.22
3.21	1,006.47	3.00%	3,086.52	9.00%	670.98	2.00%	4,763.97
5.00	3,692.92	3.00%	4,824.63	3.00%	2,405.28	2.00%	10,962.84
0.00	2,868.91	3.00%	10,901.86	11.40%	1,912.61	2.00%	15,683.37
0.91	26,089.16	3.00%	62,195.17	6.92%	17,392.77	2.00%	96,677.10



Leverage your Financial Planning Process



Attract and retain employees



Tax Play



Wealth accumulation



Business Succession Planning

Leverage the SECURE ACT



Start up Plans use the Tax Credit

- Billed cost gets a dollar-for-dollar credit
- The remaining amount is a deductible business expense.



Start up plan after plan yearend to save on taxes

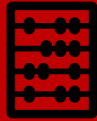
- Contribute to a plan or pay Uncle Sammy.



Combo Plan Design



Leverage Restatements



In Plan Roth Conversion



Review current plan provisions to improve plan design features

Agenda

Summary

1. Market Overview
2. New Developments
3. Qualified Plans and Financial Planning
4. Case Studies
5. Practical Applications you can use today

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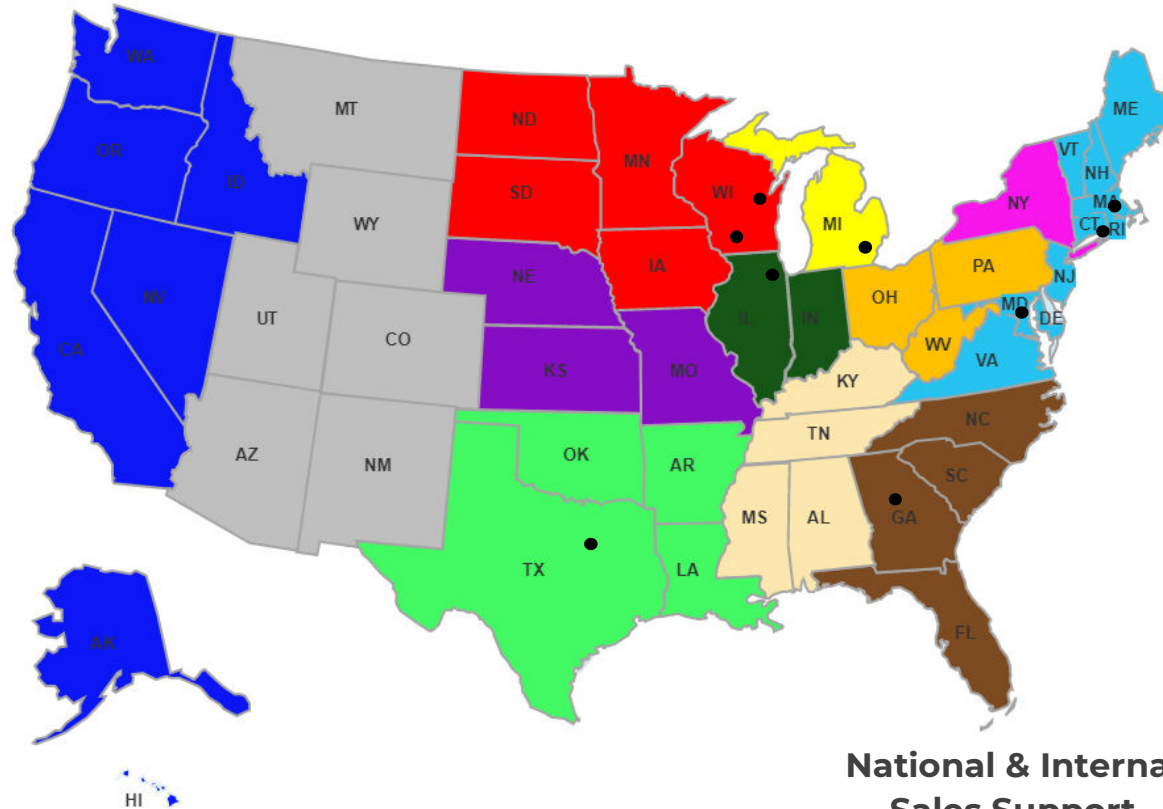
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**Maximize the value you bring to your clients and close more prospects.
 Let MAP be an extension of your team assisting you in providing proactive, client-focused solutions**

Important Notes

The content of this presentation is for general information only and is believed to be accurate and reliable as of the presentation date, but may be subject to change. It is not intended to provide investment, tax, plan design, or legal advice (unless otherwise indicated). Please consult your own independent advisor as to any investment, tax, or legal statements made herein.

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