Year End Planning Checklist

HELPING YOUR CLIENTS TO RETIRE COMFORTABLY

Is your client considering adding or changing their retirement plan? There has never been a better time to start a new plan.

1) **A plan can help employers find and retain more qualified employees.** The best candidates are typically presented with several job offers at one time. A business can attract potential employees by offering a 401(k) plan with an employer matching contribution. This will let employees know that the company is committed to helping them save for retirement and it will differentiate the employer since currently only 29% of plans with fewer than 25 employees offer a 401(k) plan. Once an employee is familiar with 401(k) plan benefits, they will be more likely to stay than to move to a competitor without a 401(k) plan.

2) **A retirement plan can help the business with additional tax savings** Any employer contributions (matching or profit sharing) to the plan are tax deductible. While the employer is helping their participants save for retirement, the company sponsoring the plan can save money too. In addition, studies have also shown that offering benefits such as a 401(k) plan adds, on average, 7% to a company's profits.

3) **A plan can help the owners and employees save money too.** In a 401(k) plan, plan participants can currently defer up to $19,500 on their annual taxable income (and an additional $6,000 in catch up contributions for those age 50 and over). So, in addition to the tax savings for the employer and the value of the matching contributions provided, a 50 year old employee in the 25% tax bracket would save close to $6,000 in taxes if they deferred the maximum into the plan. A total contribution of up to $57,000 may be made to selected individuals (upon passage of certain non-discrimination testing).

4) **The money won't be taxed until it is withdrawn from the plan.** When money Is invested in a 401(k) plan, it can grow tax-deferred without any annual penalties. When it is time to withdraw money for retirement, it will be taxed at current income tax rates instead of the more costly capital gains taxes.

5) **Owners of small businesses with less than 100 employees that start a new 401(k) plan can claim a federal tax credit of up to $500 per year for the first three years of the plan.** Recent disclosures about fees have also helped level the playing field and have given sponsors the insight to find the plan that has the best value. At an average cost of $1,000 to $2,000 a year, 401(k) plans are one of the lowest cost and highest value benefits an employer can offer.

Starting a plan is as easy as 1-2-3:

1) Contact Noble-Davis Consulting, Inc. to help choose or review your plan provisions, set up or restate the plan document, choose a custodian or platform for your investments and provide you with information needed to submit your deferrals and contributions to the plan. You can reach us by calling (440) 498-8408 or by e-mail at contactus@noblepension.com
2) Find an investment advisor. It can be anyone you want to work with. Choose someone you trust or we can introduce you to many advisors who are the experts in their field.
3) Start saving! Most plans can be established before the end of the calendar year.

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MAKE YOUR EXISTING PLAN "AUDIT-PROOF"

Check	Issue	Problem	Timing
☐	Your plan document dictates how your plan is to be operated. It must be updated regularly and reviewed often. Amendments may be necessary to keep the plan in compliance with current law.	If your plan document isn't kept current the plan can be disqualified and penalized.	Know where your plan document is, review the provisions of the plan annually, and make sure your plan document is restated (rewritten) every 5-6 years
☐	Make sure you are running your plan in accordance with the plan document provisions.	You must use the plan document provisions to determine when employees enter the plan, who receives contributions, how vesting is applied and when money can be distributed, or the plan can be penalized.	The plan document should be referred to for any ongoing plan functions.
☐	Know what the agreement with your service providers do and do not cover. Most service providers should provide you with documentation that discloses their fees. It is your job to make sure any fees charged to the plan are reasonable.	There are required law changes, participant notices, non-discrimination testing, annual Form 5500 filings and day-to-day plan administration like processing deferral payments and making distributions to terminated participants. Know who is responsible for each function.	Your participants should receive participant statements and Summary Annual reports at least once per year. Other notices, such as fee disclosure, must be distributed for certain plan types. Non-discrimination testing and Form 5500 must be performed annually.
☐	Know who in your company is responsible for different plan functions such as enrolling new participants, distributing the required notices, making 401(k) deferrals and loan deposits and signing government forms.	It is important that each person performing a function understand the reason and expectation behind each duty.	There can be stiff fines and penalties for late contribution payments, not distributing the required notices or not filing the required government forms such as the Form 5500. There can also be penalties for not providing the enrollment materials to new participants.
☐	Communicating the correct data regarding participants (such as date of birth, date of hire, date of rehire, date of termination, hours, loan repayments and compensation) is critical to the accuracy of the testing, forms and filings.	Inconsistencies in the data will result in incorrect testing, forms and filings. This could lead to issues if the plan is audited or even to plan disqualification.	Your service provider may request this information every payroll, quarterly or annually. Make sure to provide them with the correct data and double check any reports you receive from the service provider to ensure the data is correct.
☐	Keep detailed notes of all plan decisions such as discretionary contributions, changes to the plan document and reviewing fund performance/making fund changes.	In the event of an audit, the Internal Revenue Service (IRS) or Department of Labor (DOL) will request meeting notes or board resolutions to determine if the plan and investments were handled with prudence.	Every year, there should be notes if the plan decides to issue a discretionary contribution, change out of a poorly performing fund or make an amendment to the plan. They will want proof that issues were discussed and of the resulting decisions.

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LET US HELP YOU CHOOSE THE RIGHT PLAN FOR YOU

	Good for:	Adopt by:	Advantages:	Disadvantages:
Simplified Employee Pension (SEP)	Employers with no employees or employers with high turnover	The due date of the plan sponsor's tax return for the year of the contribution/ deduction	3 year eligibility, minimal administration costs, 25% deduction	Must benefit all employees who earn more than $550 a year, immediate vesting, no loans
SIMPLE IRA	Employers who have a lot of family employees, minimum wage employees	At least 90 days before the end of the plan year in which deferrals will begin	2 year eligibility, minimal administration costs, allows employee deferrals and catch up contributions	Required contribution, must benefit all employees who earn more than $5,000 a year, immediate vesting, no loans, lower plan limits
Safe Harbor 401(k) Plan	Employers who wish to avoid ADP testing, plans that are top heavy	At least 90 days before the end of the plan year in which deferrals will begin	Automatic pass on certain testing	Required employer contribution, safe harbor contributions are 100% vested
Traditional 401(k) Plan	Employers who wish to limit contributions to employee deferrals	Before deferrals are to begin	No employer contributions are required, last day and year of service can be used	Annual testing required, more costly to administrate
Cross-Tested Profit Sharing	Employer wishing to maximize contributions for select participants or owners, employers with substantial resources	By the end of the plan year of the contribution/deduction	May provide the maximum contribution to the owners with the cost of 3-5% to other participants	More costly to administrate, depends on demographics of workforce, annual testing is required
Cash Balance/ Defined Benefit	Employer wishing to maximize contributions for select participants or owners, employers with substantial resources	By the end of the plan year of the contribution/deduction	Favors older, higher paid employees, may provide owners with a very large contribution amount	May require substantial annual contributions, much more expense to administrate, hard to explain to employees

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CONTACT US FOR HELP WITH RETIREMENT PLANNING

Common retirement plan limits

	Compensation	Annual Additions	401(k) Deferrals	401(k) Catch Up	SIMPLE	SIMPLE Catch Up	IRA Contribution
2020	285,000	57,000	19,500	6,500	13,500	3,000	6,000
2019	280,000	56,000	19,000	6,000	13,000	3,000	6,000

Illustration of various plans with 2 owners (over age 50 making over $255,000) and 8 staff members

	Profit Sharing Only (10% of pay)	Add 401(k) and 3% Safe-Harbor	401(k) Safe Harbor with Cross-Testing	Cash Balance/ Defined Benefit
$ to Owners	51,000	91,500	107,500	225,250
$ to Employees	38,100	38,100	28,420	38,440
% to Owners	57%	71%	79%	85%
% to Employee	43%	29%	21%	15%

Ten Most Common Retirement Plan Errors

1. Failure to Amend for Updates—Plan documents must be updated to reflect tax law changes. If the updates are not timely, the plan is disqualified. We will soon be in the restatement cycle for most plans (from 2014-2016), so be prepared and know who is responsible for updating your document.

2. Failure to Follow the Plan's Definition of Compensation— Plans define what kinds of participant compensation serve as the base for the employer contribution. "Compensation" can exclude certain kinds of pay.

3. Failure to Include or Exclude Employees— Plans may permissibly exclude certain categories of employees. With this kind of failure, a plan excludes those who should have been covered or includes those who should not have been covered.

4.Failure to Comply with Plan Loan Procedures— Many plans allow participants to borrow from their plan accounts. If the participant defaults, the loan must be reported as income to the participant. The failure occurs when the income is not reported.

5. Impermissible In-Service Withdrawals— Benefits to participants are paid when certain events occur, such as retirement, death, disability, or termination of employment. This error occurs when a participant receives a distribution while still employed.

6. Failure to Satisfy Minimum Distribution Rules—Generally, participants are required to take mandatory minimum distributions at age 70-1/2. Failure to make the required minimum distribution could disqualify the plan and expose the participant to a 50% penalty on the underpayment.

7. Employer Eligibility Failure— Some employers are prohibited from using particular types of retirement plans. For example, a government entity cannot sponsor a 401(k) plan. Some categories of tax exempt employers cannot adopt 403(b) plans.

8. Failure to Meet 401(k) Non-Discrimination Tests— Employee deferrals and employer matches in 401(k) plans are subject to special annual non-discrimination tests. These failures occur when these tests are not satisfied.

9. Failure to Meet Top-Heavy Rules — A plan is "top heavy" if more than 60% of assets are held in the accounts of key employees. If so, non-key employees must receive a minimum employer contribution annually.

10. Failure to Meet Section 415 Requirements — Section 415 of the Code limits how much a participant may receive as an employer contribution each year. If the limit is exceeded in any year, the plan is disqualified.

If you think you might have made one of the mistakes above, we can help!
Contact us today at: contactus@noblepension.com or (440) 498-8408
Visit our website at: www.nobledavis.com

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