Crafting the Perfect Retirement Plan

Incorporating science into the art of the problem

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Agenda

- Understanding the Thirst
  - Motivators
- Basic Ingredients
  - Water, Yeast, Barley/Malt and Hops
- The Art of Brewing
  - Color, Strength, Flavor and Aroma
- Fermentation
  - Care and Maintenance
- Questions

Understanding the Thirst

- Traditional motivations
  - Attraction/retention
  - Competitiveness
  - Paternalism
- Alternative motivations
  - Allowing the business owner or partnership group to save a large amount of money for retirement in a short period of time, on a tax-deferred basis

Understanding the Thirst

- Alternative motivations (continued)
  - Business succession planning tool – use a pension plan to facilitate the sale of a business
    - A useful tool in asset and stock sales
    - Asset sale – proceeds from the sale are deducted as pension contributions by the seller
    - Stock sale – allows buyer to purchase the company with tax-deductible contributions and the seller to receive sale proceeds as tax-deferred income

The Big Picture

PALE LAGER
Soft malt taste | Light body | Dry finish | Best for new to craft beers | Bitterness 20-40 units

BLONDE ALE
Mild malt sweetness | Low bitterness | Light body Dry finish | Great for beginners too Bitterness 20-30 units

PALE ALE / INDIAN PALE ALE
Strikes balance between malt and hops | Medium to dry finish | Much higher bitterness, take note! Bitterness 50-100 units

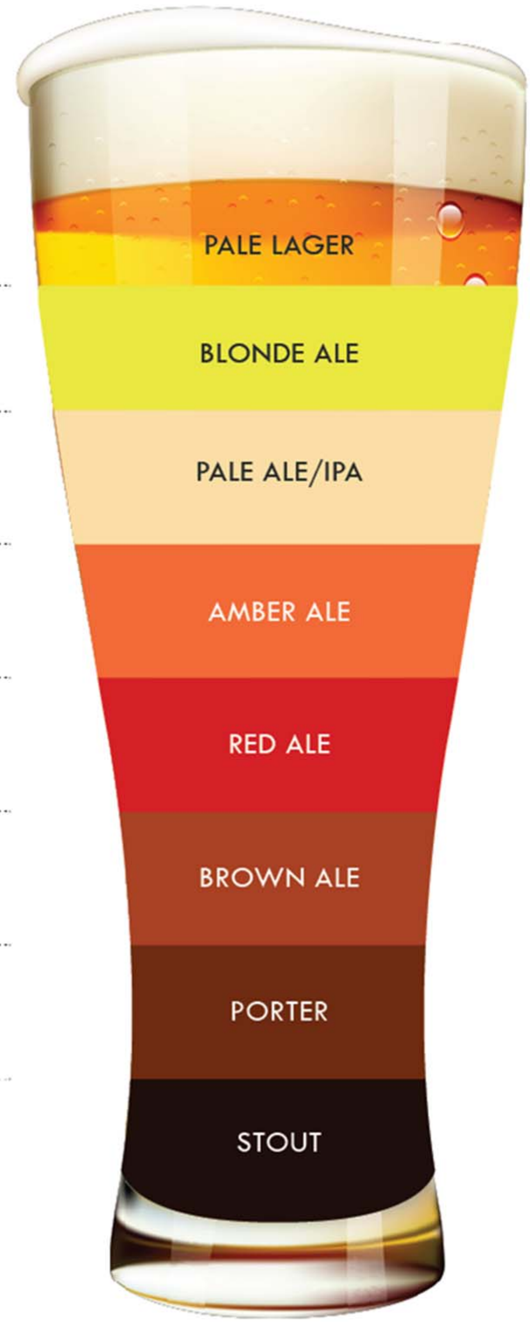
AMBER ALE
Well-balanced hops & malt | Caramel richness Medium body | Bitterness 20-60 units

RED ALE
Toasted malt | Medium sweet caramel flavour Dry finish | Bitterness 50-100 units

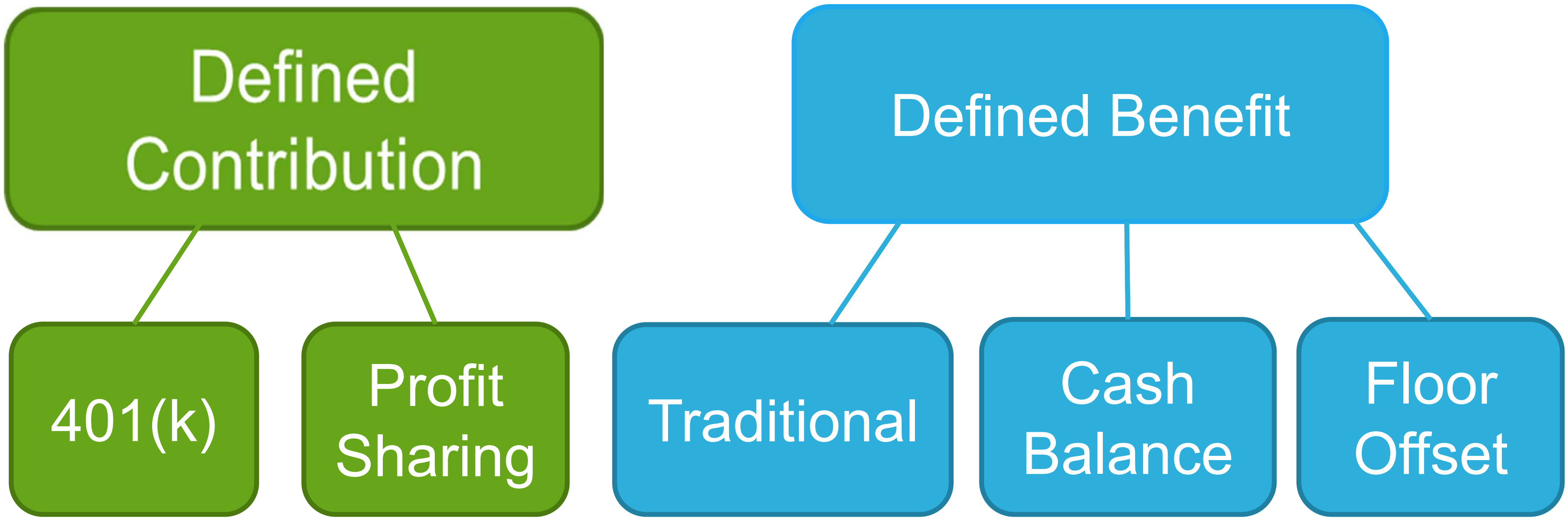
BROWN ALE
Mid to High malt character | Low hops | Caramel Chocolate | Toffee | Nuts | Biscuit flavours Medium dry finish | Bitterness 20-60 units

PORTER
Roasted malt taste with notes of chocolate Medium dry finish | Dark color | Little fizz Not recommend for beginners | Bitterness 30-60 units

STOUT
Strong roasted malt taste & coffee | Chocolate Caramel flavours | Dark color | Little fizz New to craft? Try the lighter colors first | Bitterness 30-60 units



The Big Picture



Basic Ingredients

Water	Base Ingredient	IRS Code, Rules and Regulation
Barley/Malt	Foundation	Plan Sponsor
Hops	Flavor	Plan Documents
Yeast	Making it Real	Investments

The Art of Brewing

- Color is affected by barley/malt
- The strength is determined by the amount of malt and yeast and how long you ferment
- Hops add the flavor

Plan Options

Profit Sharing Plan

Profit Sharing and 401(k) Plan

401(k), Profit Sharing and Match

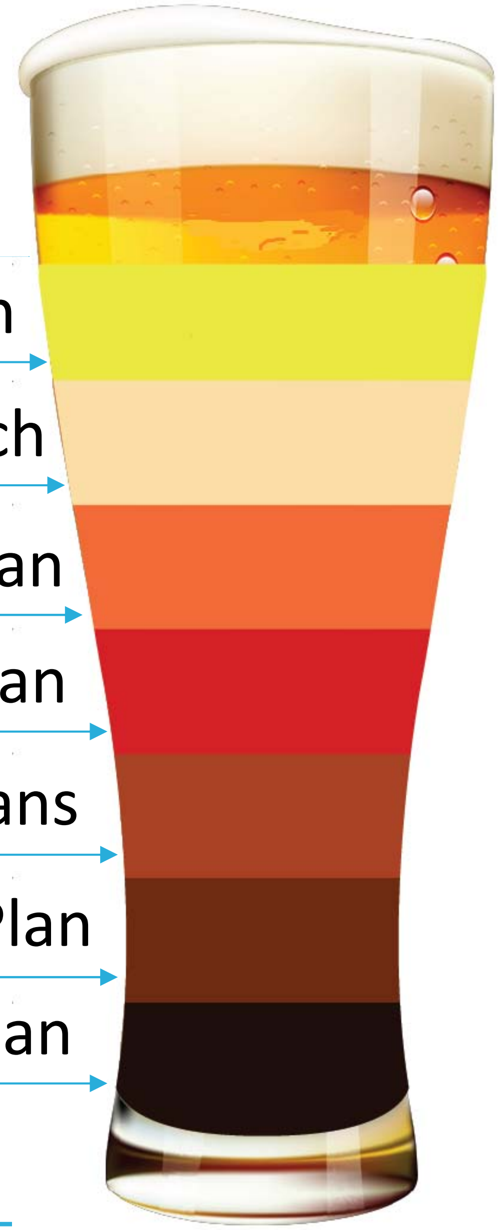
Cross Tested Defined Contribution Plan

Traditional Defined Benefit Plan

Side by Side DB and DC Plans

Cash Balance Plan

Floor Offset Plan



Defined Contribution vs. Defined Benefit Plans

- It's all in the <u>name</u>
- Defined <u>Contribution</u> plans
  - The contribution is the defined element
    - E.g. – Employer contributes 5% of pay for participants each year
  - Annual contribution limited to $76,500 for Profit Sharing Plans (2024)
  - Deduction limited to 25% of covered payroll
  - Amount of savings at retirement is uncertain: depends on investment return and annual contributions
  - E.g. – 401(k) plans, profit sharing plans, money purchase plans, SEPs, SIMPLEs

Defined Contribution vs. Defined Benefit Plans

- Defined Benefit plans
  - The benefit at retirement is the defined element
    - E.g. Benefit defined as an annuity equal to 5% times average compensation for each year of benefit service. Benefit is payable for life beginning at age 62
  - Benefits are subject to maximum limits:
    - Annual annuity of $275,000 (2024) if payable between age 62 and 65
    - Smaller if paid at an earlier age, larger if paid at a later age
    - Further limited to highest 3 consecutive year average compensation
    - Phased in over ten years of participation
  - Maximum benefit payable converts to a lump sum value of about $2.9 million at age 62

Defined Contribution vs. Defined Benefit Plans

- Defined Benefit plans (continued)
  - Annual contributions needed to fund that benefit are uncertain (determined annually by the actuary)
  - The closer to retirement, the larger the contribution
  - Contribution range:
    - Minimum required contributions
    - Maximum deductible contributions
  - Maximum deductible contribution can be greater than covered payroll
  - E.g. – Traditional defined benefit plan, floor offset defined benefit plan, cash balance defined benefit plan

Defined Contribution Plans

Principal Advantages

- Appreciated by employees
- Easy to understand
- Extremely flexible
- Contributions are generally discretionary

Principal Disadvantages

- Low contribution limits
- Not designed to be a plan primarily for owners
- Difficult to build sufficient retirement savings in short period of time
- Need high current compensation to maximize contribution

Defined Benefit Plans

Principal Advantages

- Substantially higher contribution limits
- Greater assurance of achieving retirement goal
- Generally higher benefits for owners relative to rank and file employees
- Wide range of allowable contribution provides some flexibility
- *Current* salary not necessary to make a contribution

Principal Disadvantages

- More complicated / less understood
- Underappreciated by employees
- Minimum employer contributions are required

Defined Benefit Combination and Hybrid Plans

- Examples include
  - Cash balance plans
  - Floor offset arrangements
  - Pension equity plans (PEPs)
  - Adjustable pension plans
- There are also DC hybrid plans
  - Age-weighted profit sharing plans
  - New comparability plans
  - Target benefit plans

Cash Balance Plans

- Have the look and feel of a DC plan
  - Hypothetical Account Balance
  - Pay Credit every year
  - Interest Credit every year
  - When you leave you get the vested value of your account
- Interest credits are typically not equal to investment returns
  - Plan assets are pooled, and at any given time may be somewhat more or somewhat less than the sum of everyone's account balance

Cash Balance Plans

- Advantages in Traditional situations
  - Understood and appreciated by employees
  - Age-neutral benefits
  - Easy to target different benefit levels for different participants
  - Relatively predictable contributions/financial reporting
  - Shares risks

Why are Defined Benefit Plans so Underutilized?

- Bad press. Generally reported from a large or public plan perspective
- Misinformation
- Not well understood (so mistrusted)
- Hard to find actuarial firms that specialize in small businesses
- Lack of quality ongoing consulting

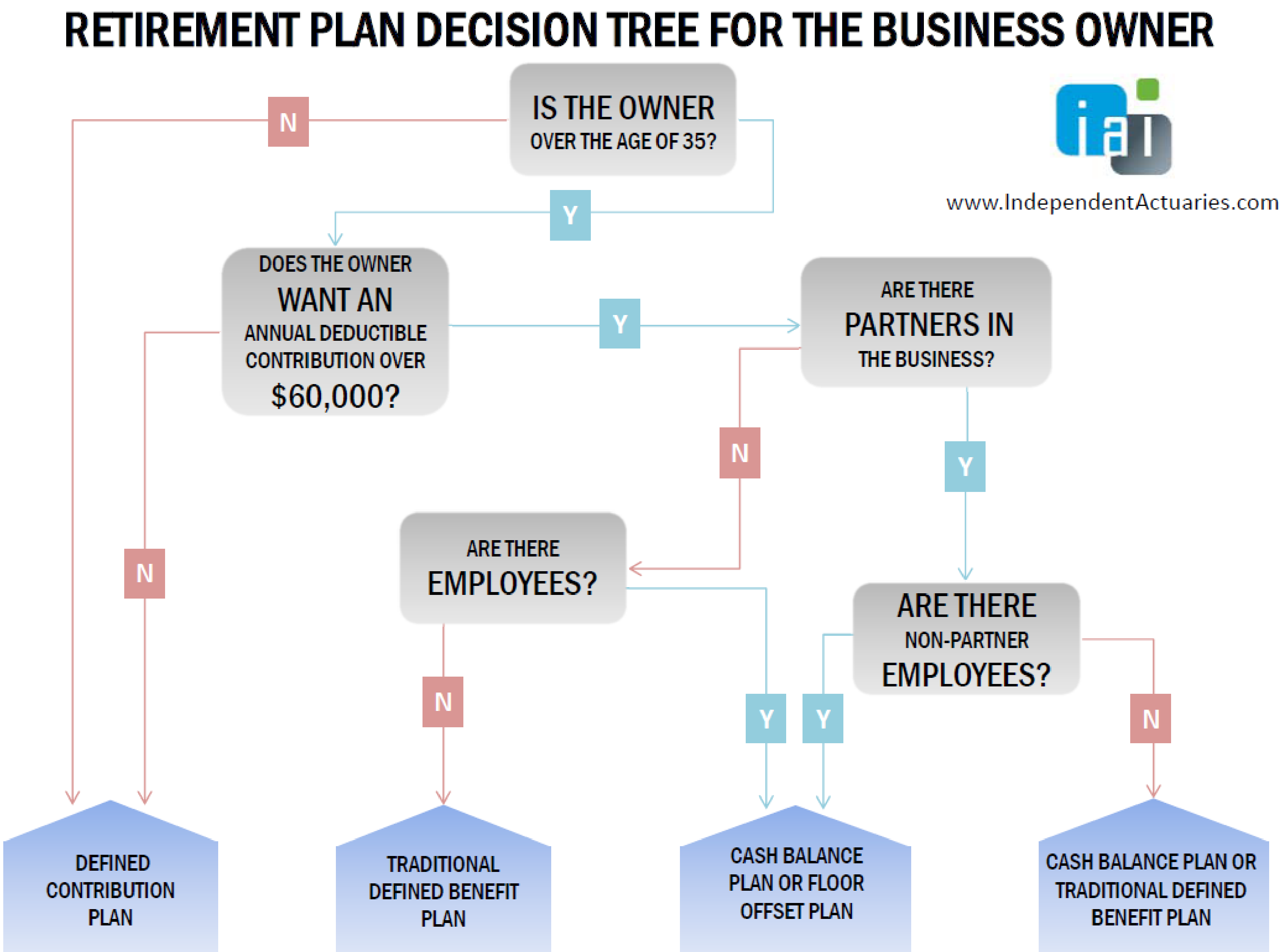
Fermentation

- Sanitize the equipment
  - Government filings (5500/PBGC)
  - Participant notices
  - Annual administration/valuations
  - Funding
- Changing the flavor
  - Changes in employee demographics/business goals
- Rely on experts
  - Taking advantage of plan advisors

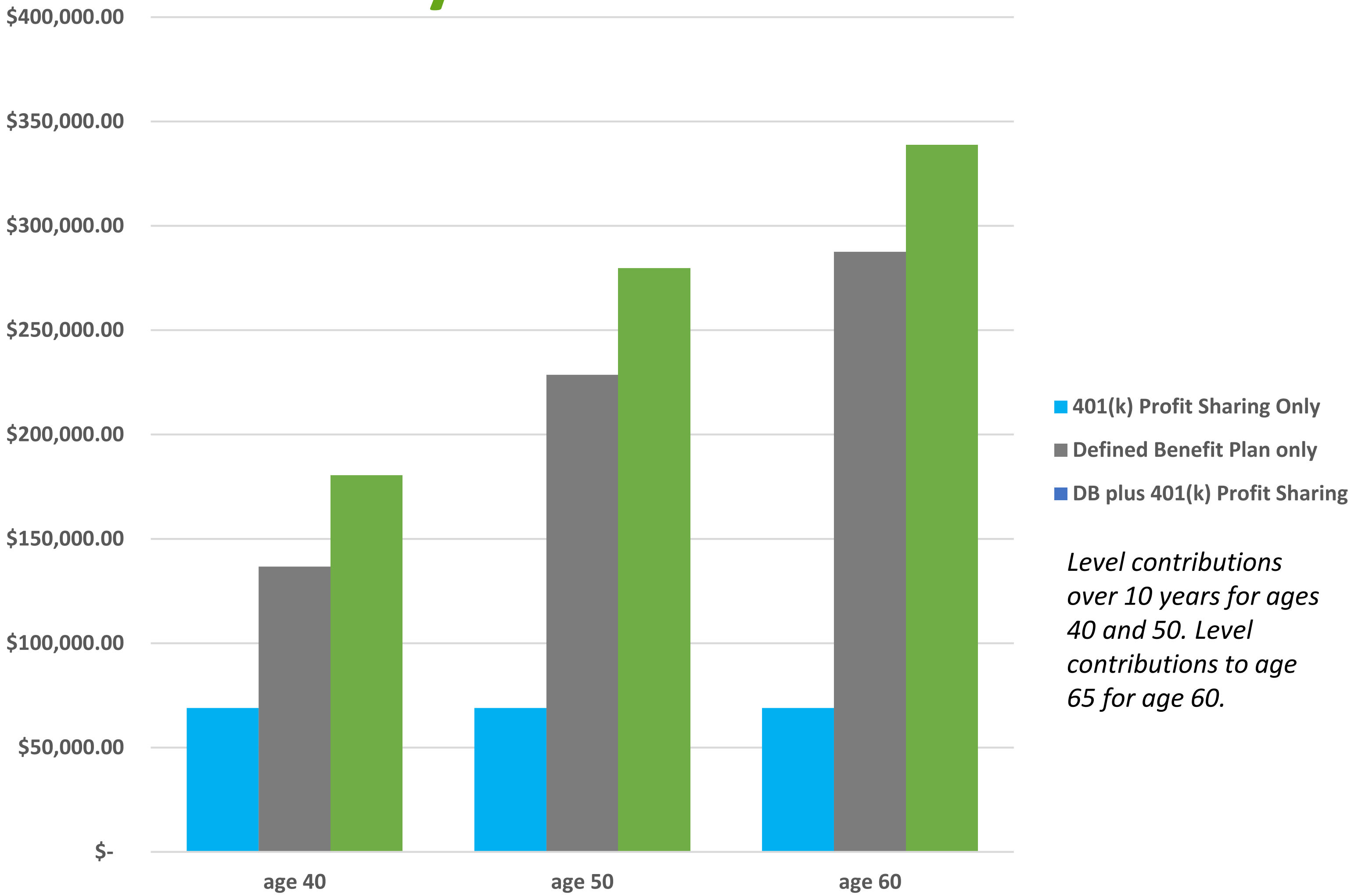
2024 Plan Implementation

Plan Design	• Plan designed based on specific client goals
Draft Document	• Once design is finalized, the document is drafted
Sign Document	• Plan must be in place by 12/31/2024 for a 2024 contribution/deduction

Decision Tree!



Contribution Comparison
Owner Only – 2024 Limits



Level contributions over 10 years for ages 40 and 50. Level contributions to age 65 for age 60.

Defined Contribution Plans

- Scenario –
  - Business owner, age 63, with employees ages 49, 52 and 66.
  - Owner would like to provide some retirement income for employees
  - Owner would like around a $60k contribution on his/her behalf

Cross-Tested 401(k) Profit Sharing Plan

- Employee deferrals and employer contributions
- Non-uniform employer contributions (just have to pass nondiscrimination testing)

Cross-Tested 401(k) Profit Sharing Plan
2019 Plan Year

Participant	Age	Plan Compensation	401(k) Deferrals	Catch Up 401(k)	Safe Harbor	Add'l Profit Sharing	Total Employer Contrib.	Total Annual Additions
Owner	63	280,000	19,000	6,000	8,400	28,600	37,000	62,000
Employee #1	49	28,000	560	0	840	560	1,400	1,960
Employee #2	52	30,000	600	0	900	600	1,500	2,100
Employee #3	66	35,000	700	0	1,050	700	1,750	2,450
Grand Totals		**373,000**	**20,860**	**6,000**	**11,190**	**30,460**	**41,650**	**68,510**
Totals for Owner		**280,000**	**19,000**	**6,000**	**8,400**	**28,600**	**37,000**	**62,000**
Totals for Other Employee		**93,000**	**1,860**	**0**	**2,790**	**1,860**	**4,650**	**6,510**
% of total to Owner		**75.1%**	**91.1%**	**100.0%**	**75.1%**	**93.9%**	**88.8%**	**90.5%**

Traditional Defined Benefit Plan

- Scenario –
  - Business owner with no employees
  - Owner would like larger deductions
  - Owner needs some flexibility in contribution amounts each year

Best Candidates – Traditional Defined Benefit Plan

- Owner is over age 35
- Ability to accumulate a large benefit quickly
- Owner is looking to contribute over what a 401(k) profit sharing plan can provide
- Owner has historical compensation, or high current compensation
- Owner has no employees or employees are younger and lower paid than the owner

Combination Plans

- Scenario –
  - Business owner with employees
  - Owner would like to provide some retirement income for employees
  - Owner would like to maximize the contribution on his/her behalf

Combination and Hybrid Plans

- Floor Offset
  - Defined Benefit Plan provides the gross benefit
  - Defined Benefit is offset by equivalent benefit provided by the Profit Sharing Plan

- Cash Balance
  - Defined Benefit is Hypothetical Account Balance with annual Pay Credits and Interest Credits
  - Profit Sharing Plan contribution is used to pass nondiscrimination testing

Floor Offset / Cash Balance Results Comparison

Floor Offset

- Produces slightly better results for owners
- Employees benefit only in the 401(k) profit sharing plan

Cash Balance

- Ability to set equal benefit amounts to participants of different ages
- Benefit based on a lump sum; easier for sponsors and participants to understand

Advantages to Combination Plans

- Ability to pair with an existing 401(k) profit sharing plan
- Larger contributions than a 401(k) profit sharing plan
- Minimize employee cost
- Tier benefits
  - Exclude certain partners
  - Vary contribution amounts by group

Best Candidates -
Combination Plans (Floor Offset and Cash Balance)

- Desire contributions greater than $54k
- Companies with older owners, younger employees
- Contributions to profit sharing plan of 5% to 7.5% of pay to employees
- Partners desiring equal contribution amounts
- Examples: Medical Practices, Law Firms, Dentists, and other professional firms

Simple Business Sale Illustration

- Joe is the only employee
- He is age 54 in 2022
- His compensation is $200,000 / year
- He has had a DC plan and has been making the maximum contributions
- In 2022 he sets up a DB plan
- In 2025 he sells the business (asset sale) for annual payments of $250,000 for three years
- In 2029 he terminates the plan and rolls a lump sum benefit of approximately $2,000,000 into an IRA

Utilizing a DB Plan in a Business Stock Sale

- Works best when the sale is to family member(s) or current employee(s)

- Usually a longer term strategy – owner is generally still working when process is started

- DB is set up primarily to benefit owner with minimal benefits to other employees