

---

# Crafting the Perfect Retirement Plan

Incorporating science into the art of the problem

---

*Prepared by Independent Actuaries, Inc.  
4500 Kruse Way, Suite 200  
Lake Oswego, OR 97035*



---

# 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

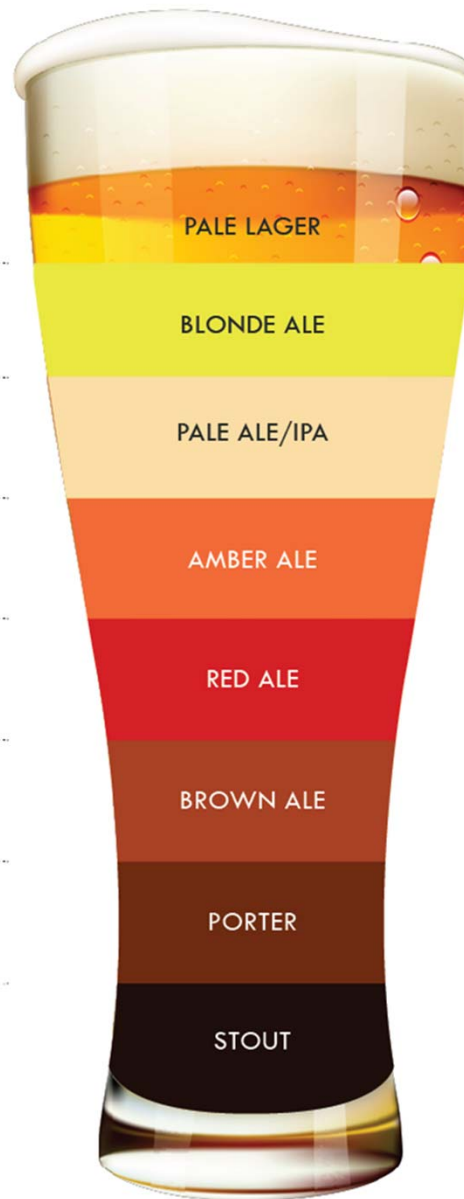
**AMBER ALE**  
● Well-balanced hops & malt | Caramel richness Medium body | Bitterness 20-60 units

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

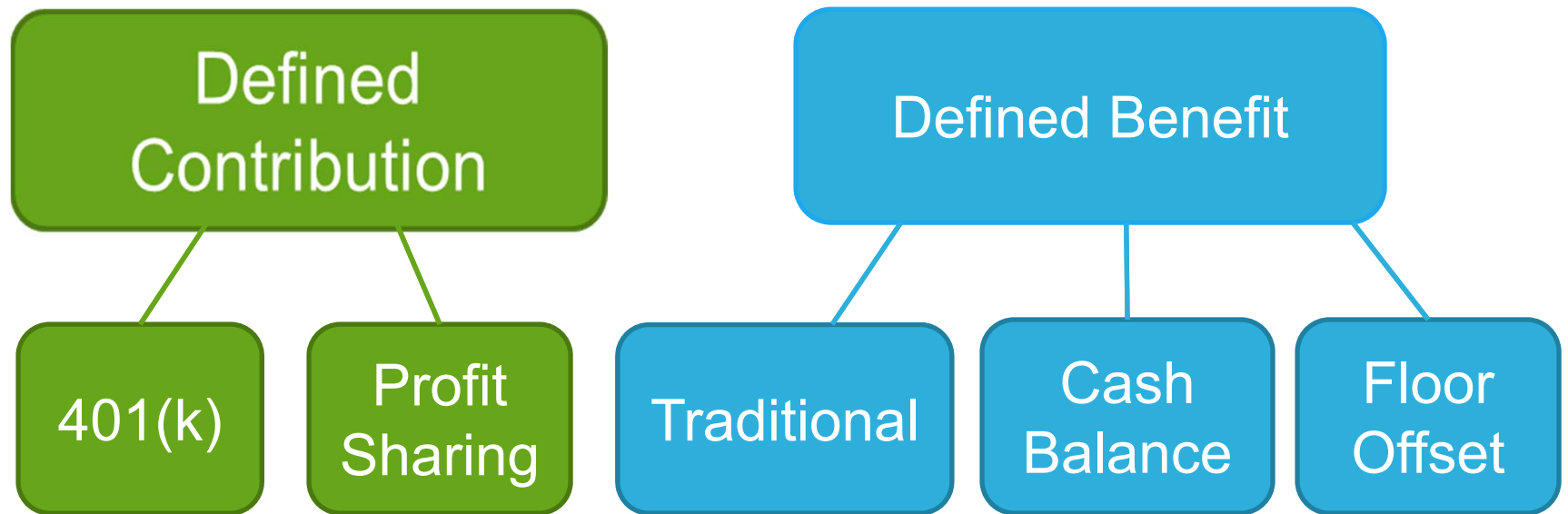
**BROWN ALE**  
● Mid to High malt character | Low hops | Caramel Chocolate | Toffee | Nuts | Biscuit flavours  
Medium dry finish | Bitterness 20-60 units

**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

Barley/Malt

Hops

Yeast

Base Ingredient

Foundation

Flavor

Making it Real

IRS Code, Rules  
and Regulation

Plan Sponsor

Plan Documents

Investments



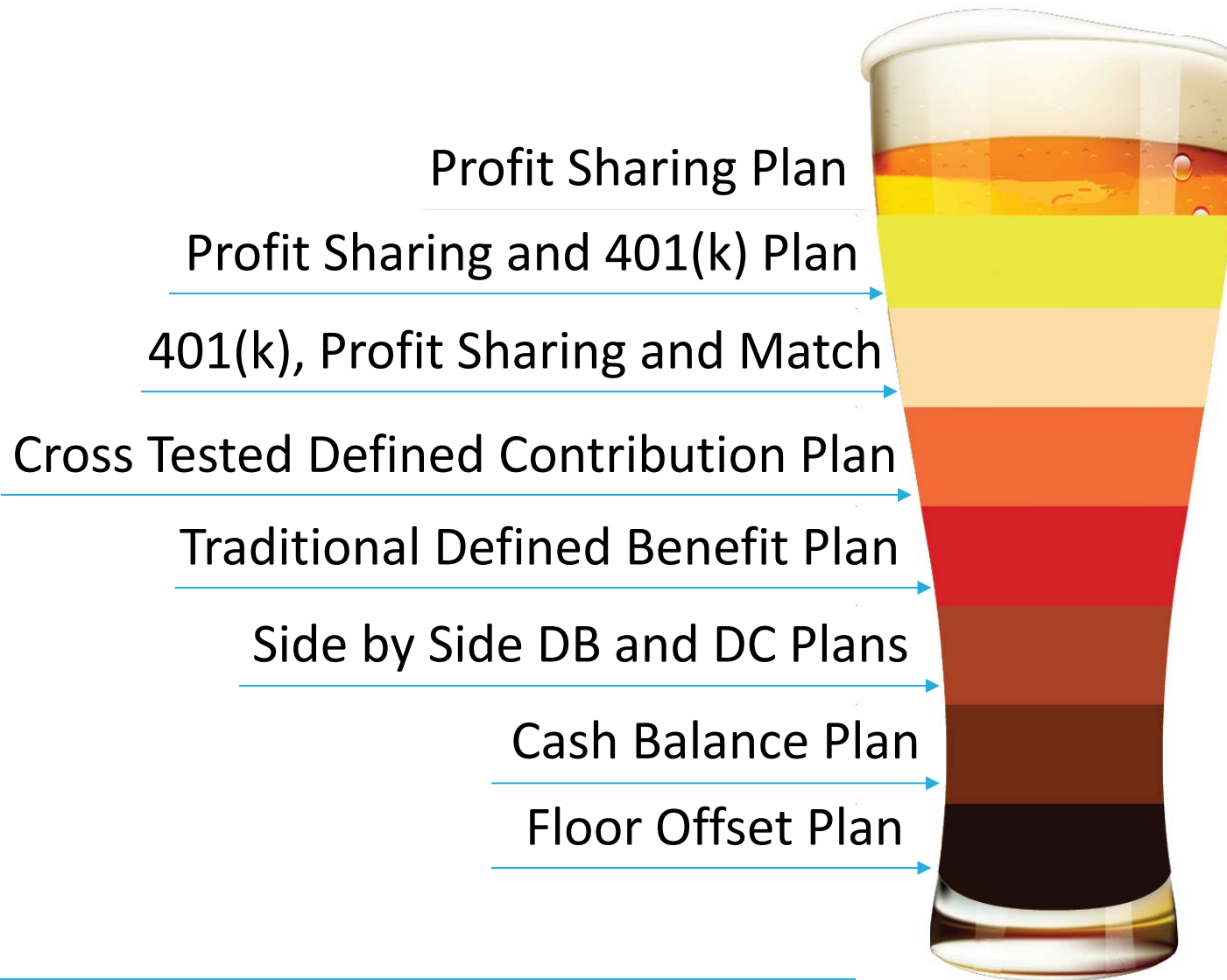
---

## 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



# Defined Contribution vs. Defined Benefit Plans

- It's all in the name
- Defined Contribution plans
  - The contribution is the defined element
    - E.g. – Employer contributes 5% of pay for participants each year
  - Annual contribution limited to \$63,500 for Profit Sharing Plans (2020)
  - 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 \$230,000 (2020) 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



## 2019 Plan Implementation

### Plan Design

- Plan designed based on specific client goals

### Draft Document

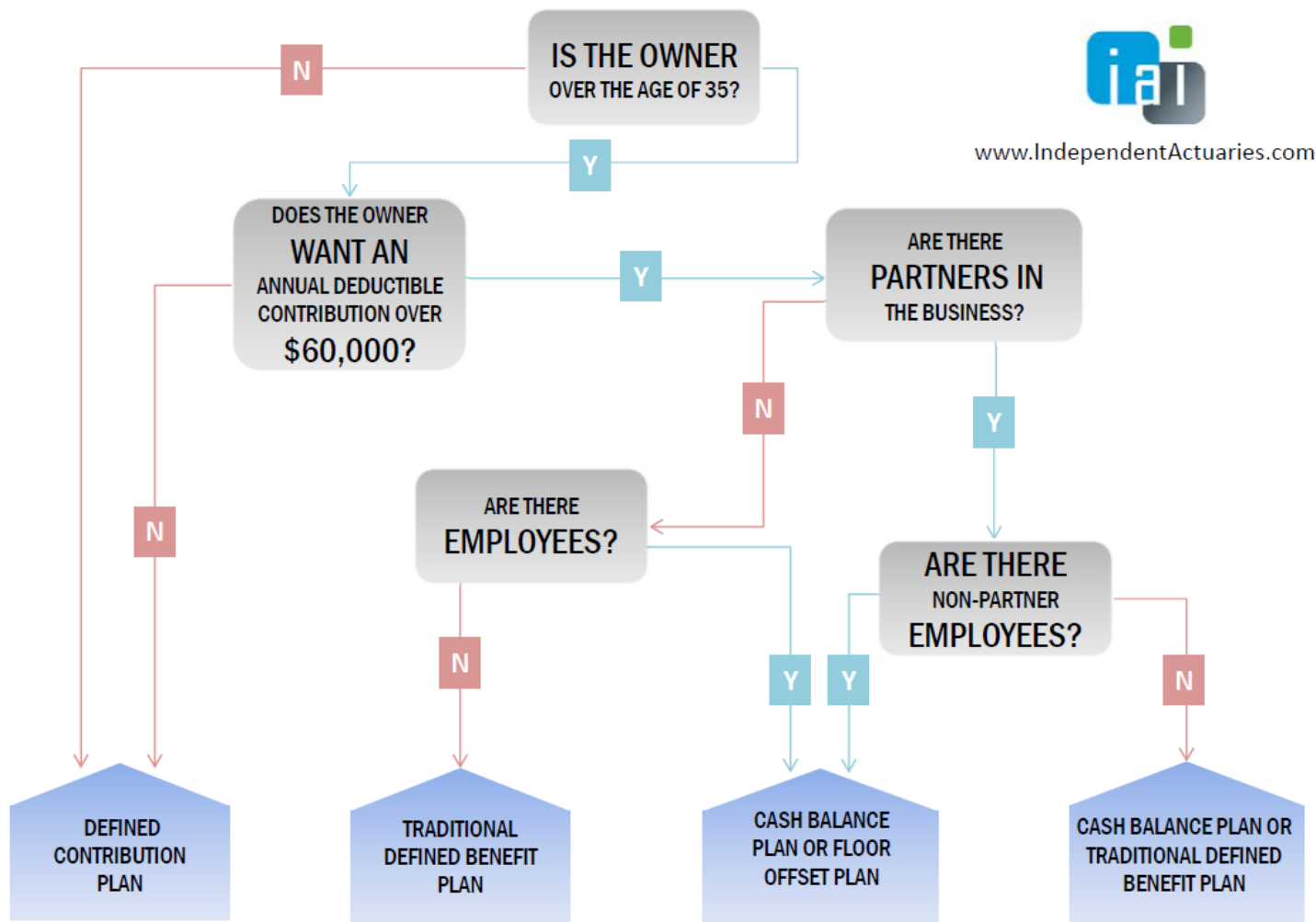
- Once design is finalized, the document is drafted

### Sign Document

- Plan must be in place by 12/31/2019 for a 2019 contribution/deduction

# Decision Tree!

## RETIREMENT PLAN DECISION TREE FOR THE BUSINESS OWNER



[www.IndependentActuaries.com](http://www.IndependentActuaries.com)



---

# Questions?



---

## Contact Information

### **Independent Actuaries, Inc.**

4500 Kruse Way Suite #200

Lake Oswego, OR 97035

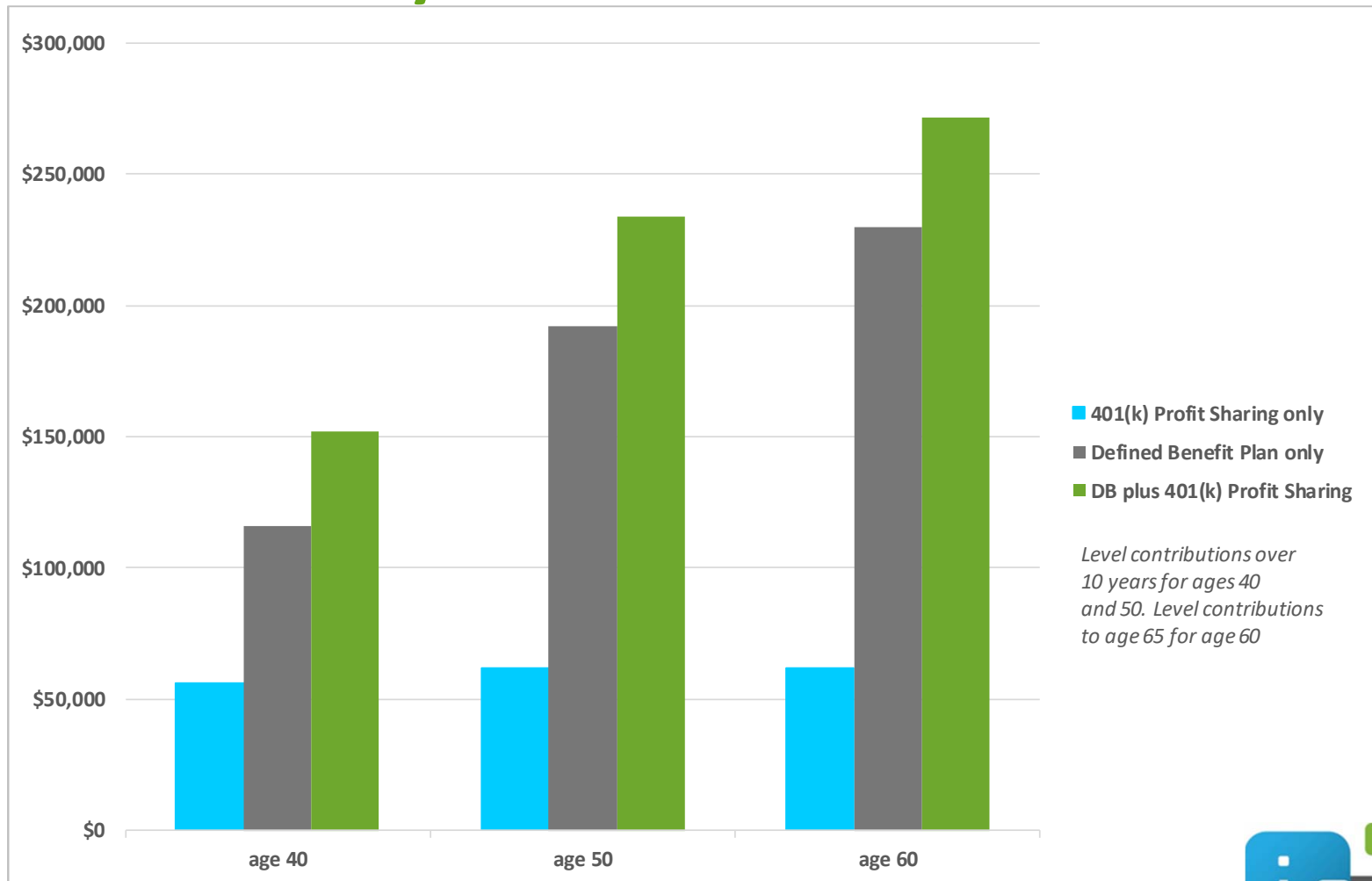
503.520.0848

[www.independentactuaries.com](http://www.independentactuaries.com)



# Contribution Comparison

## Owner Only – 2019 Limits





---

## 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
<b>Grand Totals</b>		<b>373,000</b>	<b>20,860</b>	<b>6,000</b>	<b>11,190</b>	<b>30,460</b>	<b>41,650</b>	<b>68,510</b>
<b>Totals for Owner</b>		<b>280,000</b>	<b>19,000</b>	<b>6,000</b>	<b>8,400</b>	<b>28,600</b>	<b>37,000</b>	<b>62,000</b>
<b>Totals for Other Employee</b>		<b>93,000</b>	<b>1,860</b>	<b>0</b>	<b>2,790</b>	<b>1,860</b>	<b>4,650</b>	<b>6,510</b>
<b>% of total to Owner</b>		<b>75.1%</b>	<b>91.1%</b>	<b>100.0%</b>	<b>75.1%</b>	<b>93.9%</b>	<b>88.8%</b>	<b>90.5%</b>



---

## 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 2015
- His compensation is \$200,000 / year
- He has had a DC plan and has been making the maximum contributions
- In 2015 he sets up a DB plan
- In 2018 he sells the business (asset sale) for annual payments of \$250,000 for three years
- In 2022 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

