



# Creative Retirement Plan Design 2021



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# Plan Limits

## 2021 Individual Limits

Maximum compensation:	\$290,000
Maximum 401(k) contribution:	\$ 19,500
Maximum “catch-up” contribution:	\$ 6,500
Maximum Defined Contribution (DC) limit:	Lesser of \$58,000 or 100% of pay*
Maximum Defined Benefit (DB) limit:	\$230,000

\*If age 50 or older, the “catch-up” contribution is added to maximum limit

## 2021 Company Limits

DC only: 25% of gross pay.

DB/DC combo plans:

- If DB plan is not covered by the PBGC, maximum overall deduction limit is:
  - ▶ Full DB contribution, plus DC contribution up to 6% of gross pay; or
  - ▶ If DC contribution is greater than 6% of gross pay, total of DB and DC contributions is limited to 31% of gross pay.
- If covered by the PBGC: full DB contribution plus DC limit of 25% of gross pay.

# Fundamental Questions to Help Design Your Plan

## WHOM DO YOU WANT IN THE PLAN AND WHEN?

Minimum Age: Age 21 or less

Maximum Service: 1 year or less, unless Profit Sharing only;  
2 years or less

Exclusions: Union, Nonresident alien, leased employees

Entry Dates:

- ▶ Immediate
- ▶ Monthly
- ▶ Quarterly
- ▶ Semi-Annual - January 1 or July

## WHAT ARE THE SOURCES OF MONEY AND WHO RECEIVES IT?

401(k) Pre-Tax or ROTH Post-Tax Salary Deferral

Safe Harbor Match (Basic and Enhanced)

3% Safe Harbor Non-Elective

Additional Match

Profit Sharing Contribution

Other Employer Contribution (Cash Balance Pension Plan)

## WHO CAN ACCESS MONEY AND WHEN?

Loans

Financial Hardship

In-Service Withdrawal at age 59 ½ or Normal Retirement Age

Death Disability

## HOW TO INVEST THE MONEY?

Participant vs. Trustee Directed

# Retirement Plan Example #1

## Traditional 401(k) Plan

### Ideal Plan

- ▶ Start-up companies with limited resources
- ▶ Can use as a building block for later enhancements

### Things to Remember

- ▶ Need Non-Highly Compensated Employees\* to participate for owners to defer 401(k)
- ▶ Top-Heavy and ADP testing needs to be monitored closely

\*Employees who earned less than \$130,000 during 2020

# Retirement Plan Example #1

## Traditional 401(k) Plan

	Age	Total Comp	401(k)	Catch-Up	Total	401(k) Allocation Percent*	ADP %
Owner 1	60	\$290,000	\$19,500	\$ 6,500	\$26,000	6.72%	
Owner 2	52	\$120,000	\$19,500	\$ 6,500	\$26,000	16.25%	11.49%
<b>Subtotal</b>		<b>\$410,000</b>	<b>\$39,000</b>	<b>\$13,000</b>	<b>\$52,000</b>		
Employee 1	55	\$ 50,000	\$ 5,000	\$ 0	\$ 5,000	10.00%	
Employee 2	40	\$ 45,000	\$ 2,250	\$ 0	\$ 2,250	5.00%	
Employee 3	35	\$ 40,000	\$ 2,000	\$ 0	\$ 2,000	5.00%	
Employee 4	25	\$ 30,000	\$ 0	\$ 0	\$ 0	0.00%	5.00%
<b>Subtotal</b>		<b>\$165,000</b>	<b>\$ 9,250</b>	<b>\$ 0</b>	<b>\$ 9,250</b>		
<b>Total</b>		<b>\$575,000</b>	<b>\$48,250</b>	<b>\$13,000</b>	<b>\$61,250</b>		

\*Catch-up contributions are excluded from the 401(k)-allocation percent.

**\*ADP test fails and Top-Heavy issues in this example.**

# Retirement Plan Example #2

## 401(k) with 3% Safe Harbor

### Ideal Plan

- ▶ Companies with cash flow to support 3% employer contribution

### Things to Remember

- ▶ Avoid ADP and compliance testing
- ▶ Highly Compensated Employees can defer maximum (no refunds)
- ▶ Cost effective way to have small plan
- ▶ Can use 3% as base for additional employer allocation
- ▶ Advanced notices have changed with the Secure Act effective 1/1/20

# Retirement Plan Example #2

## 401(k) with 3% Safe Harbor

	Age	Total Comp	401(k)	Safe Harbor 3%	Employer %	Total	Total Allocation Percent
Owner 1	60	\$ 290,000	\$26,000*	\$ 8,700	3%	\$ 34,700	11.97%
Owner 2	52	\$ 120,000	\$26,000*	\$ 3,600	3%	\$ 29,600	24.67%
<b>Subtotal</b>		<b>\$410,000</b>	<b>\$52,000</b>	<b>\$12,300</b>		<b>\$64,300</b>	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 1,500	3%	\$ 6,500	13.00%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,350	3%	\$ 3,600	8.00%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,200	3%	\$ 3,200	8.00%
Employee 4	25	\$ 30,000	\$ 0	\$ 900	3%	\$ 900	3.00%
<b>Subtotal</b>		<b>\$165,000</b>	<b>\$ 9,250</b>	<b>\$ 4,950</b>		<b>\$14,200</b>	
<b>Total</b>		<b>\$575,000</b>	<b>\$61,250</b>	<b>\$17,250</b>		<b>\$78,500</b>	

\*includes \$6,500 catch-up contribution



# Retirement Plan Example #3

## 401(k) with Safe Harbor Match

### Ideal Plan

- ▶ Companies with cash flow to support Safe Harbor Match contribution
- ▶ Companies that want employees to put “same skin in the game” in order to get Employer Safe Harbor Match

### Things to Remember

- ▶ Makes more sense if the goal is for employees to be more active in plan versus just 3% Safe Harbor
- ▶ Need to commit 30 days prior to beginning of year

# Retirement Plan Example #3

## 401(k) with Safe Harbor Match

	Age	Total Comp	401(k)	Safe Harbor Match	Employer %	Total	Total Allocation Percent
Owner 1	60	\$290,000	\$26,000*	\$ 11,600	4%	\$37,600	12.97%
Owner 2	52	\$ 120,000	\$26,000*	\$ 4,800	4%	\$30,800	25.67%
<b>Subtotal</b>		<b>\$410,000</b>	<b>\$52,000</b>	<b>\$16,400</b>		<b>\$68,200</b>	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 2,000	4%	\$ 7,000	14.00%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,800	4%	\$ 4,050	9.00%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,600	4%	\$ 3,600	9.00%
Employee 4	25	\$ 30,000	\$ 0	\$ 0	0%	\$ 0	0.00%
<b>Subtotal</b>		<b>\$165,000</b>	<b>\$ 9,250</b>	<b>\$ 5,400</b>		<b>\$14,650</b>	
<b>Total</b>		<b>\$575,000</b>	<b>\$61,250</b>	<b>\$21,800</b>		<b>\$83,050</b>	

\*includes \$6,500 catch-up contribution

# Retirement Plan Example #4

## 401(k) with 3% Safe Harbor & New Comparability

### Ideal Plan

- ▶ Companies with older owners versus staff (typically 7+ years average age difference)
- ▶ Companies with cash flow to support 3% employer contribution

### Things to Remember

- ▶ Need to commit to the 3% Safe Harbor
- ▶ Can vary contribution by participant provided you pass IRS guidelines

# Retirement Plan Example #4

## 401(k) with 3% Safe Harbor & New Comparability

	Age	Total Comp	401(k)	Safe Harbor 3%	New Comp	Total Employer %	Total	Allocation Percent
Owner 1	60	\$ 290,000	\$ 26,000*	\$ 8,700	\$ 29,800	13.27%	\$ 64,500	22.24%
Owner 2	52	\$ 120,000	\$ 26,000*	\$ 3,600	\$ 34,900	32.08%	\$ 64,500	53.75%
<b>Subtotal</b>		<b>\$ 410,000</b>	<b>\$ 52,000</b>	<b>\$ 12,300</b>	<b>\$ 64,700</b>		<b>\$ 129,000</b>	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 1,500	\$ 1,000	5.00%	\$ 7,500	15.00%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,350	\$ 900	5.00%	\$ 4,500	10.00%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,200	\$ 800	5.00%	\$ 4,000	10.00%
Employee 4	25	\$ 30,000	\$ 0	\$ 900	\$ 600	5.00%	\$ 1,500	5.00%
<b>Subtotal</b>		<b>\$165,000</b>	<b>\$ 9,250</b>	<b>\$ 4,950</b>	<b>\$ 3,300</b>		<b>\$ 17,500</b>	
<b>Total</b>		<b>\$575,000</b>	<b>\$ 61,250</b>	<b>\$17,250</b>	<b>\$68,000</b>		<b>\$146,500</b>	

\*includes \$6,500 catch-up contribution

# Retirement Plan Example #5

## 401(k) with 3% Safe Harbor, Profit Sharing & Cash Balance

### Ideal Plan

- ▶ Needs consistent cash flow
- ▶ Employer contribution is more rigid and requires a 3-to-5-year time commitment
- ▶ Significantly larger employer contribution
- ▶ Can vary contribution by owner

### Things to Remember

- ▶ Mandatory contribution levels
- ▶ Need to review as Employer census changes
- ▶ Need to commit for several years

# Retirement Plan Example #5

## 401(k) with 3% Safe Harbor, Profit Sharing & Cash Balance

	Age	Total Comp	401(k)	3% Safe Harbor	Profit Sharing	Cash Balance	Total ER %	Total	Allocated %
Owner 1	60	\$290,000	\$26,000*	\$ 8,700	\$ 8,700	\$ 110,000	44.60%	\$153,400	52.90%
Owner 2	52	\$ 120,000	\$26,000*	\$ 3,600	\$ 3,600	\$ 48,000	46.00%	\$ 81,200	67.67%
<b>Subtotal</b>		<b>\$410,000</b>	<b>\$52,000</b>	<b>\$12,300</b>	<b>\$12,300</b>	<b>\$158,000</b>		<b>\$234,600</b>	
Employee 1	55	\$50,000	\$ 5,000	\$ 1,500	\$ 1,500	\$ 1,000	8.00%	\$ 9,000	18.00%
Employee 2	40	\$45,000	\$ 2,250	\$ 1,350	\$ 1,350	\$ 900	8.00%	\$ 5,850	13.00%
Employee 3	35	\$40,000	\$ 2,000	\$ 1,200	\$ 1,200	\$ 800	8.00%	\$ 5,200	13.00%
Employee 4	25	\$30,000	\$ 0	\$ 900	\$ 900	\$ 600	8.00%	\$ 2,400	8.00%
<b>Subtotal</b>		<b>\$165,000</b>	<b>\$ 9,250</b>	<b>\$ 4,950</b>	<b>\$ 4,950</b>	<b>\$ 3,300</b>		<b>\$ 22,450</b>	
<b>Total</b>		<b>\$570,000</b>	<b>\$61,250</b>	<b>\$17,250</b>	<b>\$17,250</b>	<b>\$161,300</b>		<b>\$257,050</b>	

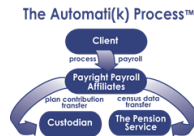
\*Includes \$6,500 catch-up contribution

# TPS Group and Payright Payroll Affiliates Difference

- ▶ Local expertise.
- ▶ Comprehensive Plan design services to determine the best plan(s) for the client.
- ▶ Available to attend meetings to further explain these plan designs to the client.
- ▶ Enrollment support.
- ▶ Customized service support and state of the art systems.
- ▶ Streamlined integration and transfer of money.

# TPS Group and Payright Payroll Affiliates Difference

- ▶ Payroll solutions to fit your unique needs
- ▶ Full retirement integration through our “Automati(k) Proces<sup>TM</sup>”
- ▶ Custom tailored reports
- ▶ Prices below the national competition
- ▶ Ask how we can help. For more information about our payroll solution, call (203) 691-4050, Option 2.





# 3(16) Plan Administration

ERISA's stringent requirements for Plan Sponsors has made the administration of retirement plans even more complex and subject to legal challenges. Now more than ever, outsourcing these responsibilities to a qualified 3(16) fiduciary makes sound business sense.

## As the delegated 3(16) plan administrator, TPS 3(16) Services, LLC:

- ▶ Relieves staff of many of the day-to-day administrative burdens associated with sponsoring a plan
- ▶ Reduces liability and audit risk
- ▶ Increases HR capacity
- ▶ Helps to ensure full ERISA compliance

## TPS 3(16) Services, LLC Includes:

- ✓ Eligibility tracking
- ✓ Invitation into the plan for newly eligible employees
- ✓ Beneficiary maintenance
- ✓ Monitoring of ongoing deposits to ensure timely processing
- ✓ Handling participant phone calls and processing transactions without Plan Sponsor involvement
- ✓ Using discretion to approve and process loans, distributions, hardships and QDROs
- ✓ Monitoring loan repayments
- ✓ Signing Form 5500 as the assigned 3(16) plan fiduciary
- ✓ Attending and leading the Annual Fiduciary Meeting
- ✓ Overseeing the timely distribution of annual disclosures and notices

# The Next Step

## WHAT INFORMATION IS NECESSARY TO PERFORM CALCULATIONS?

- ▶ Employee Census Information
- ▶ Date of Birth
- ▶ Date of Hire
- ▶ Pay/Hours
- ▶ Three highest prior years of income for owners
- ▶ Additional information is needed, if client currently has a Retirement Plan
- ▶ Payroll fee statements (if applicable) to prepare for analysis on payroll integration

## WHAT IS THE EMPLOYER'S OBJECTIVE WITH THE RETIREMENT PLAN?

- ▶ Whom do they want to benefit?
- ▶ When do owners wish to retire?
- ▶ What would they feel comfortable contributing each year on behalf of themselves and the employees?

# Disclaimer

This information is of a general and informational nature and IS NOT INTENDED TO CONSTITUTE LEGAL OR TAX ADVICE. Rather, it is provided to inform you of current information about legislative, regulatory changes, and other information of interest. The information is based on current interpretations of the law and is not guaranteed. Neither the company nor its representatives give legal or tax advice. Please consult your attorney or tax advisor for answers to specific questions.

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