

# Creative Retirement Plan Design

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2024



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# PLAN LIMITS

## 2024 Individual Limits

Maximum compensation:	\$345,000
Maximum 401(k) contribution:	\$ 23,000
Maximum “catch-up” contribution:	\$ 7,500
Maximum Defined Contribution (DC) limit:	Lesser of \$69,000 or 100% of pay*
Maximum Defined Benefit (DB) limit:	\$275,000

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

## 2024 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 (i.e., January 1st or July 1<sup>st</sup>)

## WHO CAN ACCESS MONEY AND WHEN?

Loans

Financial Hardship

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

Death/Disability

## 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 Plan)

## 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 \$150,000 during 2023.*



# RETIREMENT PLAN EXAMPLE #1

## Traditional 401(k) Plan

	Age	Total Pay	401(k)	Catch-Up	Total	401(k) Allocation Percent*	ADP %
Owner 1	60	\$345,000	\$23,000	\$ 7,500	\$30,500	6.7%	
Owner 2	52	\$120,000	\$23,000	\$ 7,500	\$30,500	19.2%	12.9%
<b>Subtotal</b>		\$465,000	\$46,000	\$15,000	\$61,000		
Employee 1	55	\$ 50,000	\$ 5,000	\$ 0	\$ 5,000	10.0%	
Employee 2	40	\$ 45,000	\$ 2,250	\$ 0	\$ 2,250	5.0%	
Employee 3	35	\$ 40,000	\$ 2,000	\$ 0	\$ 2,000	5.0%	
Employee 4	25	\$ 30,000	\$ 0	\$ 0	\$ 0	0.0%	5.0%
<b>Subtotal</b>		\$165,000	\$ 9,250	\$ 0	\$9,250		
<b>Total</b>		\$630,000	\$55,250	\$ 15,000	\$70,250		

\*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) Plan 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) Plan with 3% Safe Harbor

	Age	Total Pay	401(k)	Safe Harbor 3%	Employer %	Total	Total Allocation Percent
Owner 1	60	\$ 345,000	\$30,500*	\$10,350	3%	\$ 40,850	11.8%
Owner 2	52	\$ 120,000	\$30,500*	\$ 3,600	3%	\$ 34,100	28.4%
<b>Subtotal</b>		\$465,000	\$61,000	\$13,950		\$74,950	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 1,500	3%	\$ 6,500	13.0%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,350	3%	\$ 3,600	8.0%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,200	3%	\$ 3,200	8.0%
Employee 4	25	\$ 30,000	\$ 0	\$ 900	3%	\$ 900	3.0%
<b>Subtotal</b>		\$165,000	\$9,250	\$4,950		\$14,200	
<b>Total</b>		<b>\$630,000</b>	<b>\$70,250</b>	<b>\$18,900</b>		<b>\$89,150</b>	

\*includes \$7,500 catch-up contributions



# RETIREMENT PLAN EXAMPLE #3

## 401(k) Plan with Safe Harbor Match

### IDEAL PLAN

- ▶ Companies with cash flow to support Safe Harbor Match contribution
- ▶ Companies that want employees to put “some 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) Plan with Safe Harbor Match

	Age	Total Pay	401(k)	Safe Harbor Match	Employer %	Total	Total Allocation Percent
Owner 1	60	\$ 345,000	\$30,500*	\$ 13,800	4%	\$44,300	12.8%
Owner 2	52	\$ 120,000	\$30,500*	\$ 4,800	4%	\$35,300	29.4%
<b>Subtotal</b>		\$465,000	\$61,000	\$18,600		\$79,600	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 2,000	4%	\$ 7,000	14.0%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,800	4%	\$ 4,050	9.0%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,600	4%	\$ 3,600	9.0%
Employee 4	25	\$ 30,000	\$ 0	\$ 0	0%	\$ 0	0.0%
<b>Subtotal</b>		\$165,000	\$ 9,250	\$5,400		\$14,650	
<b>Total</b>		\$630,000	\$ 70,250	\$24,000		\$94,250	

\*includes \$7,500 catch-up contributions

# RETIREMENT PLAN EXAMPLE #4

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

### 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 & Profit Sharing

	Age	Total Pay	401(k)	Safe Harbor 3%	Profit Sharing	Total Employer %	Total	Allocation Percent
Owner 1	60	\$ 345,000	\$ 30,500*	\$ 10,350	\$ 35,650	13.3%	\$ 76,500	22.2%
Owner 2	52	\$ 120,000	\$ 30,500*	\$ 3,600	\$ 42,400	38.3%	\$ 76,500	63.8%
<b>Subtotal</b>		\$ 465,000	\$ 61,000	\$ 13,950	\$78,050		\$ 153,000	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 1,500	\$ 1,000	5.0%	\$ 7,500	15.0%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,350	\$ 900	5.0%	\$ 4,500	10.0%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,200	\$ 800	5.0%	\$ 4,000	10.0%
Employee 4	25	\$ 30,000	\$ 0	\$ 900	\$ 600	5.0%	\$ 1,500	5.0%
<b>Subtotal</b>		\$165,000	\$ 9,250	\$ 4,950	\$ 3,300		\$ 17,500	
<b>Total</b>		\$630,000	\$ 70,250	\$ 18,900	\$81,350		\$170,500	

\*includes \$7,500 catch-up contributions

# 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 Pay	401(k)	Safe Harbor 3%	Profit Sharing	Cash Balance	Total ER %	Total	Allocated %
Owner 1	60	\$345,000	\$30,500*	\$10,350	\$ 10,350	\$ 138,000	46.0%	\$ 189,200	54.8%
Owner 2	52	\$ 120,000	\$30,500*	\$ 3,600	\$ 3,600	\$ 48,000	46.0%	\$ 85,700	71.4%
<b>Subtotal</b>		\$465,000	\$61,000	\$13,950	\$ 13,950	\$186,000		\$274,900	
Employee 1	55	\$ 50,000	\$ 5,000	\$ 1,500	\$ 1,500	\$ 1,000	8.0%	\$ 9,000	18.0%
Employee 2	40	\$ 45,000	\$ 2,250	\$ 1,350	\$ 1,350	\$ 900	8.0%	\$ 5,850	13.0%
Employee 3	35	\$ 40,000	\$ 2,000	\$ 1,200	\$ 1,200	\$ 800	8.0%	\$ 5,200	13.0%
Employee 4	25	\$ 30,000	\$ 0	\$ 900	\$ 900	\$ 600	8.0%	\$ 2,400	8.0%
<b>Subtotal</b>		\$165,000	\$ 9,250	\$ 4,950	\$ 4,950	\$ 3,300		\$22,450	
<b>Total</b>		\$630,000	\$70,250	\$18,900	\$ 18,900	\$ 189,300		\$297,350	

\*includes \$7,500 catch-up contributions

# 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)  
Process™"

► Custom tailored reports  
Prices below the national  
competition



► Ask how we can help. For  
more information about our  
payroll solution, call Diane  
Durso at (203) 691-4015.





# 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:

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- ✓ 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?



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# DISCLAIMER



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