The Business Planning Group Inc.

Retirement Planning Guide

2017 Edition

BUSINESS PLANNING GROUP

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Why should I help my client set up a Qualified Retirement Plan?

As a tax professional, you are among your clients' most trusted advisors. You are in the perfect position to assess your clients' circumstances and provide them with resources to meet needs beyond tax preparation. You can help your clients manage their money to meet their financial goals, plan for retirement, and reduce their tax burden.

By partnering with The Business Planning Group to offer additional services, you add value to your client relationships and also enhance your own bottom line. Our team includes tax reduction specialists, retirement specialists, and technical support specialists. The Group's professionals are good listeners who seek to fully understand your clients' circumstances and financial objectives before proposing possible solutions. You and your client provide us with a financial review, then we do the research and create proposals for you to present to your clients. One you and your client have approved the plan, The Business Planning Group assists you in implementing the recommendations.

Note:
This retirement planning guide provides an overview of the types of qualified plans available and their features and benefits.

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Overview

What is a Qualified Plan?

A qualified plan is a legal document that creates a legal trust into which tax deductible dollars can be contributed and grow tax deferred until retirement. Qualified plans accomplish what no other program can do—they can defer taxes on contributions (current year income) and earn income, tax-deferred, on the money that is set aside. Clients who thought they couldn't afford to save for retirement often find that a Qualified Plan can make it possible.

Because of the tax deferral involved, the IRS has complex rules governing the design and administration of a Qualified Plan. As a Tax Professional, you can help your client navigate these rules and take advantage of favorable tax treatment.

What is eligible to establish a Qualified Plan?

Virtually any entity may establish a qualified plan—an individual, sole proprietors, corporations, LLCs, and partnerships. In order to contribute to a qualified plan, earned income is required. This may be W-2 reportable income or any income that is subject to Self-Employment tax.

A Qualified Plan allows your clients to reduce taxes and offer retirement options to their employees. Firms that offer retirement plans are better able to recruit and retain the best employees. Qualified Plans may be customized to provide flexibility in the amount and timing of funding, and to benefit the appropriate employees.

Plan Options

The chart below shows the types of Qualified Retirement Plans that are available. A description of each plan follows.

Retirement Plan Option	Small Businesses All Entities 100 Employees or Less	Medium to Large Corporations	Individuals
EMPLOYER-SPONSORED PLANS			
SEP IRA	✓		
SIMPLE IRA/401(k) 100 employees or less	✓		
Defined Benefit	✓	✓	
412(e)(3)	✓	✓	
Cash Balance	✓	✓	
Profit Sharing	✓	✓	
Money Purchase	✓	✓	
Traditional 401(k)	✓	✓	
Safe Harbor 401(k)	✓	✓	
INDIVIDUAL OPTIONS			
Traditional IRA			✓
Roth IRA			✓
Nonqualified Deferred Annuity			✓
Nonqualified Immediate Annuity			✓

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IRA Plans

Individual Retirement Account (IRA)

A tax-favored savings plan that encourages accumulation of savings for retirement. Tax treatment of contributions, earnings and distributions depends on the type of individual retirement account.

Traditional IRA

IRA Eligibility and Deductibility

- Any U.S. taxpayer under age 70 ½ who earns compensation is eligible to make a contribution to a traditional IRA.
- Individuals who are not currently participating in or contributing to an employer-sponsored retirement plan may deduct their contributions.
- If an individual or their spouse is an active participant in a retirement plan, deductibility of their IRA contributions depends on their income.
- IRAs may be used as a rollover vehicle for retirement plans, such as 401K), 457(b), 403(b), SEP IRA and SIMPLE IRA.

Contribution Limits

- Annual contribution limit for individuals is the lesser of $5,500 or 100% of compensation; the $5,500 limit includes contributions for both a traditional IRA and Roth IRA combined.
- Married couple's maximum annual contribution is lesser of $11,000 or 100% of compensation; each spouse must maintain his or her own separate IRA and the $5,500 limit applies to each spouse separately.
- Catch-up provision: Workers age 50 (by the end of the calendar year) or older are permitted to make an additional $1,000 contribution for a total annual contribution limit of $6,500.

Distributions

Participants may take a withdrawal from an IRA at any time; however, the withdrawal will be subject to a 10% penalty, in addition to ordinary income tax, unless the distribution qualifies under one of these conditions:

- Participant is 59 ½ or older
- Death or disability of participant
- Medical expenses exceed 10% of adjusted gross income
- Qualified higher education expenses (i.e., tuition, fees, books, etc.)
- Substantially equal periodic payments over life or life expectancy

Traditional IRA (continued)

Distributions (continued)

- First home purchase ($10,000 lifetime limit)

The required minimum distribution, as defined by the IRS, must begin no later than when the IRA owner attains age 70 ½.

2017 Indexed AGI Limits for Deductible IRA Contributions if Participant IS covered by a Retirement Plan at Work

Filing Status	Full IRA Deduction	Reduced IRA Deduction	No IRA Deduction
Married, filing separately	None	Less than $10,000	$10,000 or more
Single	< $62,000	≥$62,000 but < $72,000	$72,000 or more
Married, filing jointly	$99,000 or less	> $99,000 but < $119,000	$119,000 or more

2017 Indexed AGI Limits for Deductible IRA Contributions if Participant IS NOT covered by a Retirement Plan at Work

Filing Status	Full IRA Deduction	Reduced IRA Deduction	No IRA Deduction
Married, filing separately with a spouse who **is** covered by a plan at work	None	Less than $10,000	$10,000 or more
Single	Any amount		
Married, filing jointly with a spouse who is **not** covered by a plan at work	Any amount		
Married, filing jointly with a spouse who **is** covered by a plan at work	$186,000 or less	> $186,000 but < $196,000	$196,000 or more

Roth IRA

Roth IRA

A nondeductible IRA offering the potential of earnings
being distributed income-tax free

Differences between Roth IRAs and Traditional IRAs

- Roth IRA contributions are made on an after-tax basis; contributions to traditional IRAs may be tax deductible. Contributions to Roth IRAs are not deductible.
- Roth IRA earnings may qualify for tax-free distribution; traditional IRA earnings do not qualify for tax-free distribution.
- Pre-death required minimum distribution rules do not apply to Roth IRAs but do apply to traditional IRAs.
- The Roth IRA may be most tax efficient when the owner will be in a higher tax bracket at retirement than at the time of the Roth IRA contribution or conversion:
    - A tax-free source of income allows the owner greater flexibility in liquidating other taxable assets at retirement
    - There is no requirement to take distributions during a Roth IRA owner's lifetime (unlike a Traditional IRA)
    - A Roth IRA may be an appropriate choice if the individual expects to defer the start of distributions past the date they attain age 70½

Contribution Limits

- Annual contribution limit for individuals is the lesser of $5,500 or 100% of compensation; this $5,500 limit applies to combined contributions to both a traditional IRA and a Roth IRA.
- An individual of any age who earns compensation may establish or contribute to a Roth IRA in the year compensation is earned.
- Contribution eligibility is phased out based on the modified adjusted gross income (MAGI).
- Married couples must each have earned income and maintain separate IRAs. The $5,500 limit applies separately to each spouse.
- Catch-up provision: Workers age 50 (by the end of the calendar year) or older are permitted to make an additional $1,000 contribution for a total contribution limit of $6,500.

Roth IRA (continued)

Contribution Limits (continued)

Filing Status	Full Roth IRA Contribution	Reduced Roth IRA Contribution	No Roth IRA Contribution
Married, filing separately		< $10,000	$10,000 or more
Individual	< 118,000	≥ $118,000 but < $133,000	$133,000 or more
Married, filing jointly	< $186,000	≥ $186,000 but < $196,000	$196,000 or more

Conversions from Traditional IRA to Roth IRA

Money can be converted from a traditional IRA to a Roth IRA regardless of the owner's age, income level or tax filing status. The amount converted is taxed to the owner in the year of the Roth conversion.

Distributions

There are two requirements for Roth IRA earnings to be distributed tax-free:

1. Distribution must be made after the 5-year holding period has been satisfied
2. Distributions must be made under one of four conditions:
   - Owner is at least 59½ years old
   - Distribution is paid to a beneficiary at death of owner and the 5-year holding period is satisfied
   - Owner is disabled
   - Withdrawal is made for qualified first-time homebuyer expenses ($10,000 lifetime limit)

Penalty-Free Withdrawals

The owner can withdraw money prior to age 59½ from a Roth IRA (or traditional IRA) and avoid the 10% penalty on the taxable portion of the distribution (if any), based on the same guidelines for traditional IRAs.

SEP IRA

SEP: Simplified Employee Pension

Small employer retirement plan using an IRA as the funding vehicle

Employer Contribution Limits

- Employer contribution limit is the lesser of 25% of employee's salary; or $54,000 (this amount may be less for highly compensated employees)
- The employer must contribute an equal percentage for the benefit of all eligible employees, with immediate vesting
- Employer contributions only; employee salary deferrals are not permitted (with the exception of SAR-SEP Plans established prior to Jan. 1, 1997)
- Employer contributions, which are determined on a year-to-year basis, are typically discretionary.

Employee Eligibility Requirement

- Participant must have been employed by the company during at least three of the last five preceding years.
- Employee must typically be age 21 or older (however, employer can set plan eligibility age at 18) and have received at least $600 in compensation (as indexed for 2017)

Distributions

- Loans from SEP IRAs are not permitted
- Distributions are taxed as ordinary income, with the same distribution guidelines as IRA distributions.

Key Points

- Small employers, sole proprietors or small nonprofit organizations with a limited benefit budget often use a SEP IRA to establish their first retirement plan due to ease of administration.
- SEP IRA Plans have no filing requirements, limited fiduciary liability, and more cost-effective administration as compared to a 401(k) or other profit-sharing retirement plan.
- SEP IRA Plans offer less employer flexibility than a Profit Sharing Plan or 401(k) Plan.

SIMPLE IRA

SIMPLE IRA: Savings Incentive Match Plan for Employees

Small employer retirement plan using an IRA as the funding vehicle

Contribution Limits

- Employer contribution limit—employer must select from these two options:
  - ◊ 100% match provided on the first 3% of employee's salary deferral. Maximum employee contribution is $12,500 as indexed for 2017.
  - ◊ 2% non-elective contribution provided for all eligible employees, regardless of employee participation. Maximum employer contribution is $5,300 indexed for 2017.
- Employee deferral limit is $12,500 per plan year (indexed for 2017) up to 100% of compensation. ($18,000 contribution limit total for all employer plans per employee)
- Catch-up provision: Workers age 50 (by the end of the calendar year) or older are permitted to make an additional $3,000 catch-up contribution for 2017, if the plan permits, for a total elective deferral of $15,500.

Plan Eligibility Requirements

- Any type of business with 100 or fewer employees may establish a SIMPLE IRA; however, no other qualified plan, 403(b), SEP IRA or 457 plan can be maintained.
- Employer must notify participants of 60-day election period prior to the calendar year-end to elect salary deferral or modify a prior election (the adoption deadline is Nov. 1).
- Employer must provide employee with a Summary Plan Description and account statements within 30 days of the end of a calendar year (contributions must be made between Jan. 1 and Dec. 31).
- Employer must cover any employee who earned $5,000 in any two previous years and is expected to earn $5,000 during the current year (exception: employees subject to collective bargaining).

Distributions

- Distributions follow the same guidelines as a traditional IRA.
- SIMPLE IRA withdrawals within the first two years of the employee's initial contribution are subject to a 25% penalty tax rather than the usual 10% penalty.
- Participant loans are not permitted.

SIMPLE IRA (continued)

Key Points

- All contributions (employer and employee) are 100% vested immediately.
- Small employers or small nonprofit organizations with a limited benefit budget often use a SIMPLE IRA plan due to ease of administration and cost effectiveness.
- SIMPLE IRA Plans offer less employer flexibility than a Profit Sharing Plan or 401(k) Plan.

SIMPLE 401(K)

SIMPLE 401(K): Savings Incentive Match Plan for Employees

Small employer retirement plan using a simplified 401(k) plan
as the funding vehicle

Contribution Limits

- Matching contribution up to 3% of employee's eligible pay, or 2% non-elective contribution
- Employee deferral limits and catch-up contribution same as for SIMPLE IRA

Plan Eligibility Requirements

- Any nongovernmental business with 100 or fewer employees may establish a SIMPLE 401(k); however, no other qualified plan, 403(b) or SEP IRA can be maintained.
- Employer must notify participants of 60-day election period prior to the calendar year-end to elect salary deferral or modify a prior election (the adoption deadline is Nov. 1).
- Plans must be maintained on a calendar-year basis (contributions must be made between Jan. 1 and Dec. 31).
- Employees are eligible to contribute if they've earned $5,000 and are 21 years of age or have 1,000 service hours in a prior year (exception: nonresident aliens and certain union employees).

Distributions

- Distributions follow the same guidelines as a traditional IRA, with the following additions: a one-time exception of separation from service after age 55; and distributions to a nonparticipant pursuant to a qualified domestic relations order (QDRO).

SIMPLE 401(K) (continued)

Key Points

- All contributions (employer and employee) are 100% vested immediately.
- Participant loans are permitted (if allowed by the plan document).
- Employers with SIMPLE 401(k) plans are subject to administrative expenses for plan document filing and amendments, Form 5500 Schedule A IRS filing and IRC Sec. 415 limit testing.
- SIMPLE 401(k) plans may be beneficial for businesses interested in loan provisions, more restrictive hours requirements for eligibility, exclusion of employees under age 21 or bankruptcy protection under the Employee Retirement Income Security Act (ERISA).

	SIMPLE IRA	SIMPLE 401(k)
Employee Eligibility Requirements	Any employee earning $5,000 or more in any 2 prior years and expected to earn $5,000 in the current year	Any employee earning $5,000 and the later of 21 years of age or have 1,000 service hours in a prior year (may be less pursuant to plan terms)
Employee Deferral Limit	$12,500 per plan year up to 100% of compensation	$12,500 per plan year up to 100% of compensation
Employer Contribution Limit	3% deferral option: up to $7,950 annually per participant 2% deferral option: up to $5,300 annually per participant.	3% deferral option: up to $7,950 annually per participant 2% deferral option: up to $5,300 annually per participant.
Participant Loans	Not permitted	Permitted if allowed by the plan document
Rollovers	Permitted to IRA without penalty only after two years. May roll into another SIMPLE IRA prior to two years.	Permitted to IRA or qualified plan immediately
Penalty / Excise Tax	Withdrawals during the first two years subject to a 25% excise tax; 10% thereafter until employee attains age 59½	Withdrawals subject to 10% penalty tax on distributions prior to age 59½
Administration	Minimal administration expenses. No 5500 filings or 415 limit testing required.	Bankruptcy protection under ERISA. Requires 5500 filings and 415 limit testing.

Defined Benefit Pension Plan

Defined Benefit Pension Plan

A plan providing a pre-established benefit for employees at retirement.

Employer Contribution Limits

- Employer contributions are based on actuarial assumptions and computations to determine the contribution needed to provide the future benefit to the plan participants.
- Annual benefits are limited to the lesser of $215,000 or 100% of the employee's highest three consecutive years of compensation (as indexed for 2017).

Key Points

- Allows an employer to create substantial retirement benefits for employees.
- Can be paired with a defined contribution plan to provide additional benefits.
- Participant loans may be permitted, per the plan document.
- Vesting schedule may be chosen by the employer.
- Defined Benefit Plan is more administratively complex and costly than other plans.

412(e)(3) Plan

412(e)(3) Plan

A defined benefit plan funded exclusively with annuities or a combination of annuities and life insurance to create a guaranteed retirement income benefit.

412(e)(3) Key Points

- Exempt from minimum funding requirements because plan is fully funded.
- Tax deductible contributions are not subject to minimum funding rules, which results in contributions that may be larger than contributions to a traditional defined benefit plan.
- Plan trustee purchases annuities or a combination of annuities and life insurance for each participant in the plan. Premium payments are made to the insurance contracts each year for purposes of funding the future retirement benefit for each participant.
- Plan must be level funded and must begin when the participants are eligible, and must end no later than the normal retirement date. No loans are allowed.
- Often used by small businesses (10 or fewer employees) that are stable, profitable and have significant and consistent cash flow.

Cash Balance Plan

Cash Balance Plan: A hybrid defined benefit plan that combines features of Defined Contribution and Defined Benefit Plans.

Small employer retirement plan using an IRA as the funding vehicle

Employer Contribution Limits

- Employer contributions are based on actuarial assumptions and computations.
- Annual compensation taken into account for benefit calculations is $269,000 (indexed for 2017).
- Formula may be based on either a lump sum or an accrued benefit.

Key Points

- Like a defined benefit plan, there is a specified benefit at retirement.
- Like a defined contribution plan, each participant has an account balance, which is subject to an employer-defined vesting schedule.
- Unlike defined benefit plans, cash balance plans typically offer a lump sum distribution option at retirement, termination of employment, death and disability.
- Cash Balance Plan may be combined with a 401(k) profit sharing plan to enhance the overall plan design
- Cash Balance plan offers more flexibility in plan design and portability than a traditional defined benefit plan.
- Tax deduction for the contribution can be significantly higher than a defined contribution plan.

401(a) Plans

401(a) Plan

A qualified plan set up as either a Profit Sharing Plan or a Money Purchase Plan.

Profit Sharing Plan

Employer Contribution Limits

- Individual employee limit is the lesser of $54,000 or 100% of employees' compensation (indexed for 2017).
- Employer contributions are discretionary from year to year. However, substantial recurring contributions must be made.

Employee Contribution Limit

- Non-discriminatory amount of after-tax contributions provided as allowed by plan document.
- Employee contributions are 100% vested at all times.

Profit Sharing Allocation Formulas

- Non Integrated
- Integrated with Social Security
- Cross Tested
    - ◊ New Comparability
    - ◊ Age Weighted

Traditional 401(k) Plan

401(k) Plan

A qualified profit sharing plan with a salary deferral feature

Employer Contribution Limits

- Employer deduction limit is 25% of considered compensation. Employee salary deferral contributions are considered employer contributions.
- Individual employee limit is the lesser of $54,000 or 100% of salary (indexed for 2017)
    - ◊ Individual limit includes salary deferral amounts contributed by participant.
    - ◊ Employer contributions may be attributable to either an employer discretionary contribution or a match contribution (based on employee's deferral amount) or both.

Employee Deferral Limit

- $18,000 per plan year (indexed for 2017) up to 100% of compensation.
- Employee deferrals are 100% vested immediately.
- Employees age 50 or older are permitted to make a catch up contribution up to $6,000 (indexed for 2017) for a total deferral limit of $24,000.

Key Points

- Participant loans may be allowed.
- Upon separation of service a participant's vested account balance may be rolled into an IRA or another qualified plan, provided the receiving qualified plan allows for the acceptance of rollovers.
- Withdrawals from 401(k) plans are restricted. The plan document will define the withdrawal features of the plan.
- Distributions occur from a triggering event. These include termination of employment, death, disability and retirement. The plan document will define the distribution features along with the timing of when the distribution will occur.

Traditional 401(k) Plan (continued)

IRS Required Testing

- Actual Deferral Percentage Test (ADP): A nondiscrimination test required for plans that allow for employee deferrals. The deferral percentage that the highly compensated employees can make is directly related to that of the non-highly compensated employees. The simple rules are:
  - ◊ If the ADP for the non-highly compensated employees is less than 2%, the ADP for highly compensated employees is up to two times that of non-highly compensated employees
  - ◊ If the ADP for the non-highly compensated employees is between 2% and 8%, the ADP for the highly compensated employees can be 2 percentage points higher.
  - ◊ If the ADP for the non-highly compensated employees is more than 8%, the ADP for the highly compensated employees can be up to 1.25 times higher.
- Actual Contribution Percentage Test (ADP): A nondiscrimination test for plans that provide a matching contribution. A plan satisfied the ACP test for a plan year if:
  - ◊ The ACP for the eligible highly compensated employees for the plan year is not more than the ACP for the non-highly compensated employees multiplied by 1.25; *or*
  - ◊ The excess of the ACP for the highly compensated employees for the year is not more than 2 percentage points over the ACP for the non-highly compensated employees, and the ACP for the highly compensated employees is not more than the ACP for the non-highly compensated employees multiplied by 2.

Safe Harbor 401(k) Plan

Safe Harbor 401(k) Plan

A 401(k) plan that does not require the ADP test or the ACP test, provided the safe harbor requirements are met.

Safe Harbor Formula

- One of two methods must be followed:
  - ◊ Employer matching contribution of 100% of the first 3% of participant deferrals and 50% of the next 2% of deferrals; or
  - ◊ 3% non-elective employer contribution
- Safe Harbor 401(k) may be helpful to businesses experiencing low employee participation in the current 401(k) plan, or to businesses who wish to eliminate the ADP and/or ACT testing required by their current 401(k) plan.

SOLO 401(k) Plan

One-participant 401(k) Plan

A one-participant 401(k) plan covering a business owner with no employees, or that person and his or her spouse.
Sometimes called Solo 401(k), Solo-k, Uni-k, or One-participant k.

Employer Contribution Limits

- Employer deduction limit is 25% of considered compensation.
- Individual employee limit is the lesser of $54,000 or 100% of salary (indexed for 2017)

Employee Deferral Limit

- $18,000 per plan year (indexed for 2017) up to 100% of compensation.
- Employees age 50 or older are permitted to make a catch up contribution up to $6,000 (indexed for 2017) for a total deferral limit of $24,000.

Key Points

- Contributions can be made to the plan as both elective deferrals and employer nonelective contributions.
- Loans, vesting and other features may be defined in the Plan document.
- Nondiscrimination testing is not required.
- Contribution limits for self-employed individuals must be determined by making a special computation to figure the maximum amount of elective deferrals and nonelective contributions.
- Annual filing of IRS Form 5500-SF is generally required for plans for $250,000 or more in assets at the end of the year.

Designated Roth 401(k) Accounts

401(k) Designated Roth IRA

A 401(k) plan accepting designated Roth employee elective contributions that are made with after-tax dollars

Employee Contribution

- Employee contributions are made with after-tax dollars.
- An employee can make contributions to both a designated Roth 401(k) account and to a pre-tax 401K) account in the same year and in any proportion. However, the combined amount contributed in any one year is limited by the 402(g) limit ($18,000 for 2017).
- Catch-up provision: Workers age 50 (by the end of the calendar year) or older are permitted to make an additional $6,000 catch-up contribution for 2017, for a total elective deferral of $24,000.
- Designated Roth contributions must be kept separate from previous and currentl 401(k) pre-tax elective contributions. A separate, designated Roth account must be established.
- Once a payment is designated as a Roth contribution, it cannot later be changed to a pre-tax contribution.

Key Points

- Employer contributions not permitted.
- Withdrawals of contributions and earnings are not taxed provided it's a qualified distribution: the account is held for at least 5 years and the distribution is made on account of disability, on or after death, or on or after attainment of age 59½.
- Distributions must begin no later than age 70½ unless still working and not a 5% owner.

This retirement planning guide is provided as a service to members of The Business Planning Group. If you have any questions, or need further information, please contact The Business Planning Group today.

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