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For employers sponsoring retirement plans | TPA Solutions | **tpa.ascensus.com** | 2019 No. 1

What's Inside

Looking to Bolster Plan Participation? Spread the Word on the Saver's Credit

The Saver's Credit is a little-known tax credit that is generally available to participants who contribute to retirement plans. In addition to offering automatic enrollment and generous matching contributions to encourage retirement plan participation, employers can consider increasing awareness of this benefit to help squeeze every last ounce of participation out of their plans.

An Unknown Tax Benefit

But why increase awareness? The simple answer is that this tax credit incentivizes saving, and increased plan participation benefits both employers and savers. (E.g., highly compensated employees may be allowed to make or receive contributions at higher rates if non-highly compensated employees participate at a high rate). And even for plans that don't need to worry about discrimination testing that limits contributions for highly compensated employees, it's still rewarding to help employees start their journey toward a secure financial future for their retirement years.

Nuts and Bolts

A portion of non-rollover contributions (including Roth) made to employer-sponsored retirement plans and IRAs may be claimed as a tax credit, subject to the following criteria:

- The saver must be age 18 or older
- The saver must not be a full-time student
- The saver must not be claimed as a dependent on another person's tax return

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If these criteria are satisfied, the amount of the credit then depends on the saver's adjusted gross income (AGI) and tax filing status. The credit may be 10%, 20%, or 50% of certain contributions made by the employee, up to $2,000 in employee contributions, for a maximum potential credit of $1,000 per person. A couple preparing their 2018 income tax return under the status of married filing jointly can possibly receive as much as a $2,000 credit. Following are the AGI limitations applicable to claiming the credit for the 2018 income tax year:

Credit Rate	Married filing jointly	Head of household	All other filers*
50%	Not more than $38,000	Not more than $28,500	Not more than $19,000
20%	$38,001 - $41,000	$28,501 - $30,750	$19,001 - $20,500
10%	$41,001 - $63,000	$30,751 - $47,250	$20,501 - $31,500
0%	More than $63,000	More than $47,250	More than $31,500

* Single, married filing separately, or qualifying widow(er)
Source: IRS.gov

The credit can be taken for employee (not employer) contributions made to the saver's traditional or Roth IRA; elective deferrals made into a 401(k), 403(b), SIMPLE IRA, SARSEP, or governmental 457 plans; and, after-tax contributions that are made into a qualified plan or 403(b) plan. Beginning in 2018, the credit can also be taken for contributions made into an ABLE account if the saver is the designated beneficiary. The credit is claimed using IRS Form 8880, and is submitted along with the saver's IRS Form 1040 (or similar return).

The saver should be careful not to take certain distributions, since the credit may be reduced by distributions made during the testing period. Refer to the IRS webpage, Retirement Savings Contributions Credit (Saver's Credit), for more information.

Getting the Word Out

There are several ways that employers can increase awareness of the Saver's Credit. One might be to include mention of the credit within other employee communications sent by mail or email. Another might be to discuss the credit during informational meetings about the plan. Whatever the method, increasing awareness of the credit and encouraging savers to take advantage of it will help ensure that employers and savers alike can benefit from increased retirement readiness. ■

Compliance Reminders 2Q2019

The following list highlights important, but not all, compliance dates for retirement plan administrators. Please contact your consultant with questions about compliance dates for your plan.

April 2019

15 Minimum funding requirements for defined benefit, money purchase, and target benefit plan years ended July 31, 2018, must be met by April 15 in order to avoid excise taxes. An electronic transfer must be completed or a check mailed by this date.

15 Retirement plan employer contributions are due in order to be deducted on employer tax returns due to be filed April 15, 2019.

15 Form 5500 Series/8955-SSA – Forms that are on extension are due for the plan year ended June 30, 2018.

30 Form 5500 Series/8955-SSA – Forms are due for the plan year ended September 30, 2018, that aren't on extension.

May 2019

15 Minimum funding requirements for defined benefit, money purchase, and target benefit pension plan years ended August 31, 2018, must be met by May 15 in order to avoid excise taxes. An electronic transfer must be completed or a check mailed by this date.

15 Retirement plan employer contributions are due in order to be deducted on employer tax returns due to be filed May 15, 2019.

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15 Form 5500 Series/8955-SSA – Forms that are on extension are due for the plan year ending July 31, 2018.

31 Form 5500 Series/8955-SSA – Forms are due for the plan year ending October 31, 2018, that aren't on extension.

June 2019

15 Minimum funding requirements for defined benefit, money purchase, and target benefit pension plan years ended September 30, 2018, must be met by June 15 to avoid excise taxes. An electronic transfer must be completed or a check mailed by this date.

15 March 31 plan year 401(k) plans must process corrective distributions for failed nondiscrimination tests to avoid a 10% excise tax.

17 Retirement plan employer contributions are due to be deducted on employer tax returns due to be filed June 17, 2019.

17 Form 5500 Series/8955-SSA – Forms that are on extension are due for the plan year ending August 31, 2018.

29 Comply with Employee Stock Ownership Plan (ESOP) related diversification requirements for certain ESOP participants.

30 Deadline for a pension plan's enrolled actuary to prepare the funding adequacy related AFTAP calculation for a March 31 plan year end to avoid a presumed 10% funding adjustment.

July 2019

1 Form 5500 Series/8955-SSA – Forms are due for the plan year ending November 30, 2018, that aren't on extension. ■

Cash Balance Plans as a Savings Strategy

Combining a cash balance plan with a 401(k) plan – with proper design – can provide for a retirement plan with maximum deductibility and significantly higher contributions at a lower cost than a conventional 401(k) or defined benefit plan alone.

How It Works

Defined contribution plans, such as 401(k) plans, allow employees to make contributions based on their compensation. Defined benefit plans, such as cash balance plans, provide a specific benefit at retirement that is funded by the employer. So employees receive retirement savings outside of what they save on their own.

In a 401(k) plan, the participant's retirement benefit amount depends on employee (and possibly employer) contributions, gains, and losses. Employer contributions in the 401(k) plan can be very limited. Participant accounts in cash balance plans grow through annual employer contributions and interest credits. The plan actuary generates annual participant statements expressing the participant's benefit as a hypothetical account balance. In other words, a cash balance plan defines the accrued benefit in terms of a stated account balance. Older participants have the capability to receive a higher benefit accrual because they have fewer years to save toward a very significant (up to $2.8 million) lump sum allowed in the plan.

When a cash balance plan is partnered with a 401(k) plan, the plan design of the profit sharing portion often uses a new comparability allocation formula with individual allocation groups. This allocation formula gives the actuary ultimate flexibility in funding contributions to minimize an employer's funding obligation and satisfy annual coverage and general nondiscrimination compliance testing.

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How Cash Balance and 401(k) Plans Compare

	Cash Balance Plan	401(k) Plan
Employee Participation	Doesn't depend on employees contributing	May depend on employee choosing to contribute
Contribution Funding Obligation	Mandatory	Discretionary
IRS Sec. 415 Annual Additions Limit	2019 annual benefit limited to lesser of 100% of average compensation or $225,000	2019 contributions limited to lesser of 100% of Section 415 compensation or $56,000
Minimum Participation Test IRC Sec. 401(a)(26)	Yes	No
IRC Section 410(b) Coverage and IRC Sec. 401(a)(4) General Nondiscrimination Testing	Yes	Yes
Annuities	Must offer as a lifetime annuity	May offer as a lifetime annuity
Investment Risk	Employer bears risk	Employee bears risk
Creditor Protection	Yes	Yes
Federal Guarantee	May be insured by PBGC	Not insured by PBGC

Additional Helpful Information

The term "annual additions" generally means the sum for any year of employer contributions, employee contributions, and forfeitures.

For plans that include salary deferral features, individuals who are age 50 and older by the end of the calendar year may make catch-up contributions in addition to the annual additions limit (if catch-up contributions are permitted under the plan).

A Growing Strategy

Using cash balance plans as a retirement planning strategy is growing. Kravitz, Inc., an Ascensus Company, recently released the 2018 National Cash Balance Research Report, showing a 15% net increase in the number of new cash balance plans compared with a 1% increase in new 401(k) plans. Cash balance plans now make up 37% of all defined benefit plans, up from just 2.9% in 2001.

Ideal candidates for cash balance plans include:

- Principals seeking a tax deduction of more than $50,000 or making more than $250,000 per year
- Consistently highly profitable companies of all types and sizes
- Consistently successful family businesses and closely held businesses
- CPA and law firms, medical groups, and professional service employers
- Older business owners who may have neglected saving for retirement

Partnering with a 401(k) Plan

If you're considering combining a cash balance plan with an existing 401(k) plan, it may require an amendment to the existing plan. If you're adopting a new cash balance plan, you have until the end of the intended plan year to do so. In either case, to get the most from a cash balance plan, you should work with your financial professional, outside counsel, actuary, and TPA to be sure that you completely understand future obligations and how certain situations may affect your plan. Under the right circumstances, cash balance plans—alone or partnered with a 401(k) plan—may be just the right solution to help your business meet your retirement savings goals. ■

For Your Information: Employee Stock Ownership Plans (ESOPs)

TPA Solutions is now one of the largest providers of employee stock ownership plan (ESOP) services as a result of several TPA firms with this specialization joining Ascensus. Our new associates allow us to fully serve employers sponsoring ESOP plans with plan design, ongoing administration and recordkeeping, compliance, repurchase liability studies, and much more.

The questions and answers below are provided as a brief introduction—"for your information"—so that you can be aware of this type of plan and consider whether it might be a good choice for your retirement and business goals.

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Q What is an ESOP?

A An ESOP is a qualified retirement plan that provides employees with an ownership interest in their company by investing primarily in stock of the employer.

Q How does an ESOP retirement plan work?

A An ESOP is funded with tax-deductible contributions by the employer—in the form of company stock—or in cash to purchase company stock. It operates through a trust, under the direction of a trustee or other named fiduciary. The ESOP stock is held outside the company in the trust. The trustee acts on behalf of, and in the best interests of, all participants. Within the trust, separate accounts are maintained for each participant. And, an ESOP can borrow money to purchase company stock.

Q Do employees contribute cash to the ESOP?

A No. An ESOP doesn't accept employee contributions, unless the ESOP incorporates a 401(k) feature.

Q Can participants vote their stock in the ESOP?

A Yes. In certain situations, federal law requires that voting rights be passed through to all ESOP participants on major issues, such as the possible sale of the company, mergers, or acquisitions. The trustee votes the stock under instructions from the participants.

Q What is a leveraged ESOP?

A An ESOP is leveraged if it borrows money or uses credit to acquire shares of company stock. The loan may be from a bank or financial institution. The selling shareholder in some situations may choose to self-finance the purchase price for all or part of the transaction.

Q Why would an employer consider setting up an ESOP?

A An ESOP is one way to establish a transition plan for the business by creating a market for the company's stock. And, because employees participating in the ESOP are also owners, it can help enhance their interest in the performance of the company.

Please contact your tax professional, financial advisor, and/or your retirement plan consultant for additional information to learn whether an ESOP is right for you.

Required Plan Amendment Event Approaching—Watch for Cycle Three Updates

While you don't need to take any immediate action, it's important to know that a major compliance event is approaching for employers who sponsor defined contribution qualified retirement plans (e.g., 401(k) and profit sharing plans).

Keeping Documents Up to Date

The IRS requires employers sponsoring a qualified retirement plan (QRP) to support the operational provisions of the plan through a written plan document. These plan documents must be amended regularly to comply with legislative and regulatory changes. For employers using a pre-approved plan document, this means that an update to your plan document is required every six years.

What Is Cycle Three?

This restatement cycle is the third, so it's also known as "Cycle Three." The prior two restatement cycles were called the Economic Growth and Tax Relief Reconciliation Act (EGTTRA) and the Pension Protection Act (PPA). We anticipate the IRS providing approval to use the new Cycle Three documents late in 2020 or early 2021. At that time, the IRS will provide a date by which all employers must restate onto the newly approved documents. We'll let you know when you need to take action to amend onto the new Cycle Three documents in order to keep your plan current. For now, just be aware that this event is coming and keep it on your planning radar.

What's Next?

Stay tuned for future updates from TPA Solutions. We'll be sending you reminders and instructions to help keep you up current with your document compliance requirements.

TPA Solutions

In the News

At TPA Solutions, we pride ourselves on our expertise in benefit plan administration. In this section, we highlight personalities who have made thought leadership contributions via the media.

Dan Kravitz: National Practice Leader for Cash Balance Plans

Want to know what you should look for when choosing a cash balance plan? Dan Kravitz shares his thoughts regarding plan design, administration systems, and more in PLANADVISER's Cash Balance Plan Clients Need Specialized Administrative Systems.

Dan provides an industry-specific take in How A Cash Balance Plan Can Turbo-Charge Your 401(k) Plans, noting the advantages that Cash Balance can potentially offer to medical professionals.

Retirement Plans to Suit Your Needs from a **National** TPA

TPA Solutions offers the strength and resources of a national firm combined with the services and relationships you'd expect to find at a local level. We're committed to providing customized retirement plan design and administration services; competitive, transparent pricing; and the highest level of efficient, accurate service.

Strong Relationships

We build client relationships through a commitment to people, quality, and integrity.

Technology, Data Security, and Privacy

Our dedication to keeping up with the latest advances in technology enhances service and secures sensitive data.

Benefit Plan Administration Expertise

We have years of experience in defined contribution, defined benefit, cash balance, and specialty plan administration.

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