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METRO NEWS #89
March 13, 2015

To our clients and friends:

This is another in a series of newsletters designed to keep you clearly informed of current events in the area of retirement plans. (plus whatever other stuff I find interesting …)

Oops I left this out:

In the previous issue # 88, I summarized some "year-end" issues, but I left out a big one. I assume most of you already know this, but the 2015 IRS limits are as follows:

- 401(k) deferral limit = $18,000
- Catch up to 401(k) limit for those 50 and older = + $6,000
- Overall 401(k) or p/s limit = $53,000 (+ $6,000 if over age 50)
- Compensation limit = $265,000
- Defined benefit limit (the max. annual benefit one may fund for) = $210,000

Metro Staff Updates:

Please join me in welcoming our new receptionist, Emma Joyce. Also, we have hired three new "Analysts", Nick Merolillo, Ingrid Peet, and Mae Davis. These new employees will allow us to better produce our Plan work.

We also continue to invest in our Ripley, WV office. In the past few months, we have added a receptionist/administrative assistant, Ashley Barnette, and an Analyst, Stacey Rhodes.

Overall, we have grown to 33 employees (up from "one" in 1986!). We appreciate your business and we look forward to continuing mutual growth.

Another item to report – Kristie Black passed a professional exam in 2014, and is on her way to earning a "Qualified 401(k) Administrator" credential. Leann Malloy has passed a test module for Cash Balance plans. Please join me in congratulating Kristie and Leann for these achievements.

Take a look at our letterhead and you can see the wealth of credentials that our staff has earned. We take professionalism very seriously.

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Efficient 401(k) Plan Design for 2015:

Many of our clients have a goal that might be characterized as "maxing out the owners at a minimal cost for the others". There is a pretty simple way to do this, especially if the "ages are right". (This item is an update for a piece that I include each year.)

The least expensive way to max out an owner or key employee is to begin by maxing out their own 401(k) salary deferrals. Assume a 55-year old owner, who, in this example defers the limit of $18,000 per year. Since the overall limit is $53,000, we need to get her an additional $35,000 in Employer contributions. Further, let's assume that she earns at least as much as the compensation limit of $265 K. Thus, she needs an Employer contribution rate of $35,000/265,000, or about 13.21% of pay. If the plan allows for an "age-weighted" allocation (as most of ours do), then we could conceivably provide a contribution to the other employees of 1/3 of her rate, or 4.41%.

This is because the IRS regs on discrimination allow us to triple the employee rate for the owners, if there is a decent disparity in ages, i.e., if the owner is older. So the "answer" is 4.41%, and you should note this as it may appear on the test :)

Seriously, we want to work with you to design your 401(k) plan efficiently. Every situation is different, so your result may not be quite as effective. Let us know if you'd like us to run a scenario for you.

Also, beyond the 401(k), we can "double up" and add a pension plan, so that the owner could conceivably get an annual tax deduction of perhaps $200,000 - $250,000 per year for themselves. This is best done if the owner is willing to commit 7.5% of payroll (overall for the 2 plans) to the employees, and also this should not be done as a one-shot deal. Again, let us know if you are curious.

Defined Benefit ("DB") Plan Topics:

Note – for those of you living only in the 401(k) world, feel free to skip this article – it is about pension plans

Some DB plans are covered by the PBGC, a government-run insurance company. The reason for this is that the Employer is promising future benefits to its employees, and creating (potentially) unfunded liabilities. If anything would happen to that Employer (i.e., bankruptcy), then those promises would be broken if the plan were not fully funded. The problem is that the PBGC is billions of dollars in the hole. As a result, Congress is raising premiums a lot, essentially doubling them over a 3 year period. The PBGC premium includes both a flat portion per person ($57 pp in 2015), plus a "variable" premium, based upon how well funded the plan is. ($24 per $1,000 of underfunding in 2015.) We have clients paying over $100,000 per year in these premiums. The strategy to minimize these premiums is easy – just fund the plan "fully". In this case, it means making more than the minimum required contribution each year. By having assets build up to equal or exceed plan liabilities, the variable portion of the premium goes away.

Note that not all DB plans are covered by the PBGC. One-person plans and "professional" employers with < 25 ees are excluded from coverage. Please let me, your Managing Consultant, or your Analyst know if you have any questions or concerns in this area.

Very Oldie:

When Metro began in 1986, we needed a way to keep clients informed of "current events". Thus, I created this newsletter. Issue # 1 discussed some legislative activity regarding how Employers could recover "excess" funds from a defined benefit pension plan without needing to actually terminate it. This seemed important back then. Issue # 2 discussed a proposal to raise the PBGC premium from its current level of $2.60 per person (see above.) The name of our firm was called "Metropolitan Actuarial Services" back then. As you can see from the firm name and the articles, our business model was much more DB oriented back then – until I realized that the world was looking for solid 401(k) administration as much, if not more, than pure actuarial work.

What do these people do?:

You may notice me tossing around terms like "Managing Consultant" and "Analyst", and, in case you didn't know, I'd like to take a moment to explain how the people doing these jobs interact with our clients.

- Managing Consultant – This person is in charge of delivering the work to a client on time, correctly, and at a fair price. They may consult with you on the design of the plan, and, at the end of the day, are ultimately responsible for the clients' happiness. (365/24/7)
- Analyst – Every other firm like Metro calls these professionals "401(k) Administrators", but we don't. This is because "administration" implies a rote methodology, which of course is a necessary trait to be successful. However, we want more than that – we want these people to (carefully) analyze a situation, hence the name.
- Reviewer – You may or may not be familiar with the person who performs this important role for your plan. Often times, but not always, it is the same person as the Managing Consultant. Obviously, our goal is 100% accuracy, thus the need for a reviewer role.

What's cooking with you? Let me know at the email below ….

Best Wishes,

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