

FOR YOUR BENEFIT



WINTER 2015

NEW PENSION LIMITS

The new pension limits are out. To make it easy to access this information, we have included a card with the new limits.

Note: 401(k) deferrals for 2015 increased to \$18,000 with a \$6,000 catch-up for those over 50.

The maximum contribution to a defined contribution plan is going up to \$53,000.

Defined benefit limits and IRA contribution limits did not change.

Remember that anyone who made over \$115,000 in 2014 will be a highly compensated employee this year.

FALSE CLAIMS FOR PLAN BENEFITS ON THE RISE

The Social Security Administration is notifying retiring baby boomers that they may be due benefits from retirement plans that they participated in years ago. Unfortunately, many of these benefits have already been paid—but the burden of proof falls on the plan administrator.

For example, suppose a former participant produces a statement from 1990 showing \$10,000 in the company's profit sharing plan. However, the current reports do not show them as a participant. Unfortunately, to prove that they were paid and not just dropped off the list, your client (the plan sponsor/administrator) must produce a check, Form 1099-R or some other evidence that they were paid back in the 90s! Or, be ready to write a second check to settle the claim *before* the person complains to the DOL.

Let your clients know that plan records, especially distributions, must be kept indefinitely. Proper recordkeeping is one of the many services that our sister company, Retirement Plan Fiduciaries, Inc. provides to lessen the administrative burden and reduce liability. We can help your clients avoid costly penalties. Please have them call our sister company Retirement Plan Fiduciaries, Inc.: 818-856-1678). ■

OWNER-ONLY PLANS UNDER SCRUTINY FROM IRS

Your clients who file a Form 5500 EZ (owner-only plans) may have received a letter from the IRS because they have over \$50,000 in outstanding loans. As you know, plans can lend the lesser of \$50,000 or one-half of the vested account balance to participants. If there are multiple owners, there could be more than \$50,000 in outstanding loans. Apparently IRS feels small plans may be lending more than they legally can.

Make sure your clients know to reply to these letters. If they don't, they may trigger an audit. Have them call us if they need help: (818) 247-7900. ■

PLANNING FOR 2015

It is never too early to start looking at your clients' deduction needs. It's too late to put a qualified plan (other than a SEP) in for 2014, but it is a perfect time to put in a safe harbor 401(k) plan. The owners will be able to defer \$18,000 (\$24,000 if over age 50) by making the safe harbor contribution for the employees. Let us explain the two safe harbor options and the advantages of each.



If you know that a client is doing great and needs a large deduction this year, we have the solution: A combination of a cash balance plan *and* a safe harbor 401(k). This combination is:

- Easy for participants to understand,
- Helps maximize flexibility, and
- Keeps the employee cost manageable.

Let us put together a proposal that is customized to your clients' needs. ■

CMC HAS A BRAND NEW BLOG

Visit our new blog: <http://cmcpenpro.com/blog.html>. Stay current with the latest due dates and



timely pension information. Using an iPad to visit the website? It's now tablet and smart-phone friendly. And, remember that we have online

training sessions, including:

- Participant enrollment.
- Participant loans.
- Hardship distributions.
- Processing distributions.
- Year-end processing.

Check out the topics at <http://cmcpenpro.com/training.html>. ■

SENATORS ASK TREASURY FOR PENSION RELIEF

As reported by NAPA, five members of the Senate Finance Committee asked for some much needed relief, especially for small plans.

Studies have shown that automatic enrollment of participants into 401(k) plans increases the participation and deferral rates. And while this is good for retirement, only 3% of small plans use this feature. One of the main roadblocks is the penalties assessed on employers if they miss enrolling a participant on time. A simple correction method instead of the current onerous penalty for missing an employee could have a huge impact. The result is an increase in participation and retirement readiness



We hope that this relief comes quickly so that plan sponsors can take advantage of this way to increase participation. With retirement readiness already a critical problem, it can only help ensure people have funds for retirement in excess of Social Security. ■

AROUND CMC

- Michael Bain, ASA, MSPA, attended the October ASPPA Annual Conference in D.C. He also attended the Joint Board for Enrollment of Actuaries pass-mark setting in Washington, DC. And, he was present for the American Academy of Actuaries Pension Practice Council meeting in Atlanta.
- Cathy Green, CPC, ERPA, spoke to a CPA group in November. She attended the NPSG in January 2015.
- CMC was a Gold Sponsor for Glendale Healthy Kids 20th Anniversary Jubilee.
- Mike will attend the Pension Practice Council in Chicago in February. ■

LOW PLAN PARTICIPATION

Having the right mix of participants is a must for owners to reach their maximum contributions. However, many plans are plagued by low participation among the rank and file. Why? You can probably guess, but here are four good reasons.

No Savings Plan

Many people just don't start saving for retirement young enough to amass the money they'll need. They may realize people are living longer and that the



cost of living only goes up, but they can't apply it to their situation. Younger people moving up behind the baby boomers (who are retiring at the rate

of 10,000 per day) need to think about longevity and retirement and save accordingly.

Financially Illiterate

The investment choices or options in plans are sometimes complicated. Some people just throw up their hands and figure they'll think about it later. Others lack the financial skills to understand the options. Plan sponsors and advisors haven't offered enough education to help their employees make wise investment choices now and save a larger percentage of their wages.

They Don't Understand Fees

Disclosure has been mandated for two years, yet many plan sponsors still can't compare fees across providers or understand the value they're getting for services.

Fear of Investments

The downturn in the economy has many people worried about investing. The market seems too unstable for them. So, they don't participate because they firmly believe they'll lose all their money.

As an advisor, we urge you to help plan sponsors increase participation in plans by increasing education, offering sound investment strategies, and overcoming financial illiteracy. ■

CASH BALANCE PLAN REGS OUT

Do you have clients wanting to implement the easy-to-understand cash balance plan with its large customizable deductions? But maybe they're hesitant because they've heard these plans are costly to set up?

The long-awaited cash balance regulations were finally released. The biggest disappointment was the failure to give a safe harbor method to convert an existing defined benefit plan to a cash balance plan and forget about it. The biggest plus was that they expanded the options for interest crediting rates.

Volume Submitter Program

Separately, IRS added cash balance plans to their volume submitter program. This cuts the entry costs in half for a new cash balance plan, since it no longer



needs to be submitted to IRS for approval.

All this means that clients can have the large deductions

that can even exceed 100% of pay and still easily understand what is due to each participant.

Combining this with a 401(k) plan can minimize employee costs to around 7-10% of pay and maximize flexibility. Some companies take advantage of this to provide bonuses as profit sharing contributions to key supervisors and managers.

If you have any questions, feel free to give us a call to discuss them. ■

NEW TO CMC

Kevin Manahan has joined CMC to further strengthen our defined benefit plan unit. Kevin has passed three actuarial exams and ASPPA's Retirement Plan Fundamentals course. He graduated from the University of California, San Diego. He enjoys math, volleyball, the beach, baseball and snowboarding. How does he feel about CMC? "What surprised me was the huge learning curve when I first started but thankfully I have a great support group with the CMC staff. They've helped me learn a lot these first few months. And, besides, my mom said playing video games was a waste of time." Kevin is referring to beating the pants off staffers at the Holiday Party.

Welcome, Kevin! ■



REMIND YOUR CLIENTS

If your client insists on handling his fiduciary duties as plan sponsor, you might want to remind him about these critical areas where penalties abound:

1) Salary deferrals for 401(k) plans: These are due to be deposited "as soon as possible." Although there is a widely held belief that any time within 15 days after deferrals are taken out is okay, don't bet the farm on it. If they aren't deposited timely, they are considered to be plan assets, and if the employer has access to this money, that is a prohibited transaction. That could result in penalties, a make up for lost earnings, and more, if caught.

2) Loan Repayments: Participant loans are more common in 401(k) plans than other plans. Many employers deduct repayments from an employee's wages similar to salary deferrals. The DOL compares repayments to salary deferrals and wants them re-deposited to the employees' accounts as soon as possible. Keep your client on the straight and narrow path—don't take a chance on getting a penalty. ■

CMC PENSION PROFESSIONALS
647 W. BROADWAY
GLENDALE, CA 91204