the dana report

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ABOUT THE FIRMS

Dana Consulting Group, Ltd. and Jennings Law Firm, Ltd. were established to provide employers with a single source of comprehensive legal and consulting services relating to retirement plan and employee benefit matters.

If you know someone who would like to receive *the dana report*, click the link below.

YEAR END TAX PLANNING ARTICLE

As we approach the end of 2017, here are some ideas to be thinking about.

1. Adding or changing your safe harbor election. Many 401(k) plans use safe harbor contributions to avoid 401(k) discrimination testing failures. For calendar year plans, the 2018 notice must be given by December 1, 2017. Now is the time to consider adding or changing your safe harbor election (or even eliminating it).
2. Changing your allocation formula. Profit sharing plans (including 401(k) plans) must specify the formula for allocating employer contributions to the plan. Depending on what your plan document says, you may be able to change the formula for 2017 if that can result in more favorable allocations. If not, consider changing it now for 2018.
3. Adding a cash balance plan. This is one of the fastest growing areas of our practice. One of the disadvantages of a defined contribution plan such as a profit sharing plan or 401(k) plan is that annual contributions for any participant are limited. For 2017, the dollar limit is $54,000 (not counting catch up contributions). For companies looking for substantially higher contributions for owners and other key employees, a cash balance plan may be the answer. There are deadlines to set up a cash balance plan for 2017 and so now is the time to start looking at this. Our firm offers no-cost contribution proposals on request. Please call Lee T. Jennings at (630) 802-7644 for additional information.

IRS RAISES 2018 RETIREMENT PLAN DOLLAR LIMITS

The IRS has announced the 2018 dollar limits relating to qualified retirement plans. For example, the 401(k) contribution limit has increased to $18,500, but the catch-up contribution limit remains at $6,000. We have updated our popular COLI worksheet with all of the limits and you can download the worksheet from the Education Center of our website at www.danaconsulting.com.

Comment: The compensation limit for 2018 is increasing to $275,000 (from $270,000) and the maximum benefit that can be paid from a cash balance plan is also increasing. This will make cash balance plans even more attractive for business owners who are looking for substantially higher contributions than are available under just 401(k) plans. If you have a business owner client that is looking for higher deductible contributions, please give Lee T. Jennings in our office a call at (630) 802-7644. For 2017 calendar year businesses, a new cash balance plan must be established by December 31.

ARE CASH BALANCE PLANS THE ANSWER TO DYING DEFINED BENEFIT PLANS?

Employers increased their contributions for retirement benefits by 25% between 2001 and 2015, according to a survey by Willis Towers Watson. The biggest driver: the decline of the traditional defined benefit (DB) plan.

DB plans were the retirement plan of choice for most companies until the 1980s when Congress began making changes that in the short-term helped reduce the federal deficit but in the long-term spelled the death knell for DB plans. Accounting changes and declining interest rates since that time accelerated the decline of these plans even though for many (or most) Americans, DB plans were their best bet at financial security after retirement.

Cash balance plans are becoming more popular nowadays for smaller employers looking for higher deductible contributions but these plans also can help rank and file employees plan for a better retirement. Many of the problems that helped kill DB plans do not exist with cash balance plans and so we think more employers, particularly those under 50 employees, should take a close look at supplementing their 401(k) plans with a cash balance plan. This can be a win-win for both companies and its workers. If you would like additional information about cash balance plans, give Lee T. Jennings in our office a call at (630) 802-7644.

PLAN STATISTICS SURVEY

OneAmerica is an investment platform in the 401(k) plan industry. They recently sent us a special report they complied summarizing various statistics about plan features such as participation requirements, 401(k) deferral rates, automatic enrollment and escalation, employer contribution rates, and plan expenses.

If you would like a copy of the report, please call Lee T. Jennings in our office at (630) 802-7644.

STATE MANDATED RETIREMENT PLANS - AN UPDATE

We have reported regularly in earlier editions of the dana report about various states that intend to require private sector employers set up mandatory state-sponsored retirement plans if the employers do not already have a retirement plan. Illinois has adopted the Illinois Secure Choice Savings Program that is expected to go live in 2018.

President Trump signed a bill in May to repeal the Labor Dept regulations that allow these plans to exit. ERISA, the federal law regulating retirement plans sponsored in the private sector, expressly prohibits the individual states from regulating private sector retirement plans. This is called preemption. The effect of this repeal is (or at least should be) to stop any state from proceeding to allow these state-sponsored plans from being set up. Well, don't tell that to California or Illinois. California recently announced it is going ahead with its state program regardless of what federal law says about preemption. Illinois has already said it is going live with its program in 2018.

Our Comment: Private sector employers in these states that are going ahead with these programs face consider legal exposure. Federal law expressly prohibits any employer-sponsored retirement plan that does not conform to ERISA, and the Illinois program does not. Also, Illinois is mandating the investments to be used, regardless of whether the investments conform to ERISA's requirements. If you are an advisor to Illinois employers who do not currently sponsor a retirement plan, this is something you need to discuss with your clients. If you have any questions about the Illinois program, please call Lee T. Jennings at (630) 802-7644.