

Win New Clients Using Point-of-Sale Plan Design



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...ing! It teaches you a new way of
...few hours — what more
...s from a book?"

...n Heath,
...r of Made to Stick

"With style and wit, Dan Roam has
...provided a smart, practical primer
...power of visual thinking.

— Daniel H. Pink,
author of A Whole New Mind

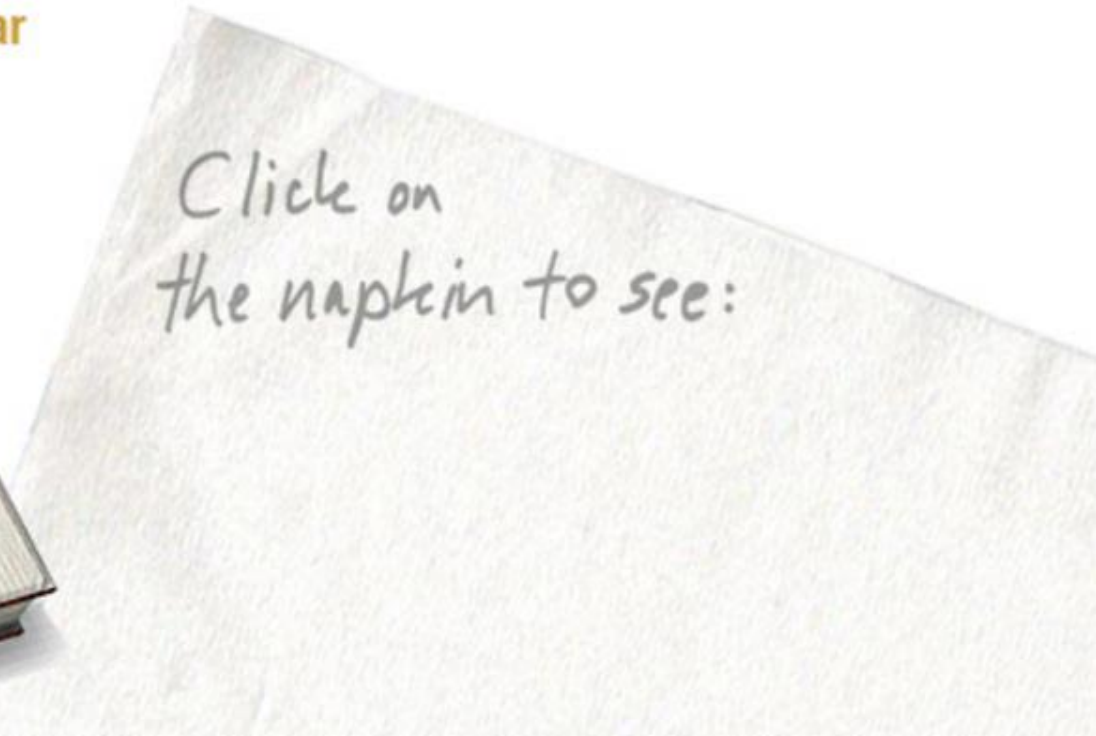
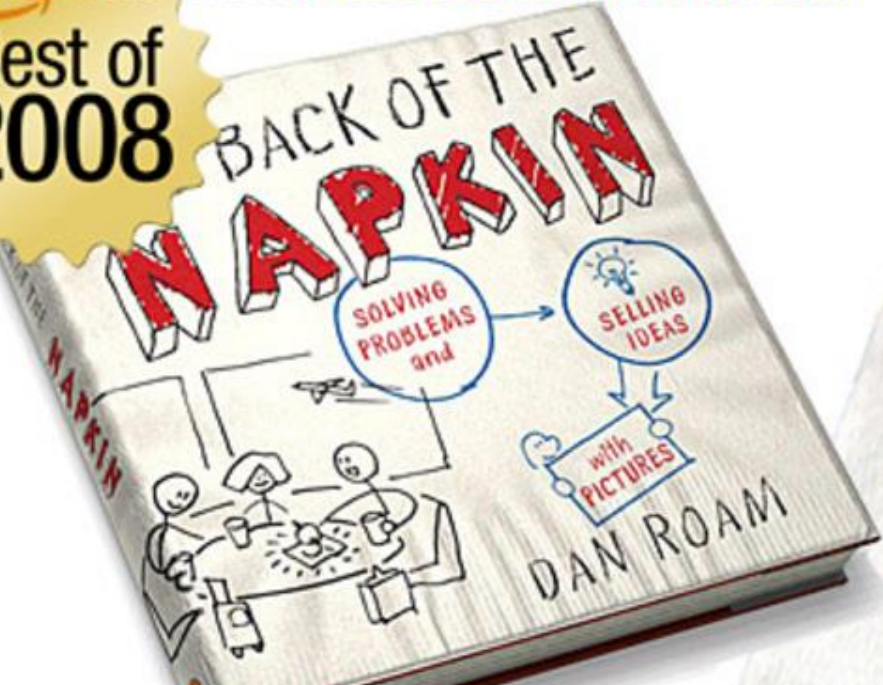


"This book is a must read for managers
and business leaders. Visual thinking
frees your mind to solve problems in
unique and effective ways."

— Temple Grandin,
author of Thinking in Pictures

amazon.com. #5 Business Book of the Year

Best of
2008



Start with Why

How to do plan design

The usual method...

\$21,644.09	\$17,554.19	\$39,198.28	\$14,434.13	\$24,764.16	-\$3,120.06	(baseline)
\$34,307.00	\$34,598.78	\$68,905.78	\$25,693.27	\$43,212.51	-\$8,905.51	-\$4,552.25
\$17,531.25	\$8,905.06	\$26,436.31	\$9,665.02	\$16,771.29	\$759.96	\$2,121.15
\$35,827.19	\$17,756.97	\$53,584.16	\$19,886.37	\$33,697.78	\$2,129.40	\$6,828.60
\$45,778.69	\$22,425.38	\$68,204.06	\$25,427.32	\$42,776.75	\$3,001.94	\$6,040.65

- Ask for a census
- Run numbers
- Create spreadsheets
- Email spreadsheets
- Explain spreadsheets

Right and Wrong

WRONG

RIGHT

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What you will learn today

What you will learn today

Do You Understand the Words That Are Coming Out of My Mouth?





The Native Tongue of TPAs

Gobbledygook

5 Employee Example

- 5 employees x \$50k average = \$250k wages
- 5% = \$8k; 10% = \$15k; 15% = 23k
- Owner is 50, average employee age is 40
- Owner maxes out at \$270k comp and \$54k contributions
- 54k owner + 8k for employees = 62k cash flow
- Tax deduction at 40% (very conservative) = \$25k
- So: owner pays 37k net of tax, gets 54k in her account, and employees get 8k in their accounts

Putting it all together

- Factfinder questions
- Drawing it out simply for the client
- Knowledge base
 - Qualified plan basics
 - Tax basics
 - Business entity basics

Open-ended fact-finder questions

- Tell me about your organization
 - What you do, how you do it, what makes you special, rough size, history, culture, locations, profitability, nature of industry
- Tell me about your people
 - How you feel about them, wage range and dispersion, what they do, loyalty/turnover, key people, what matters
- Tell me about your plan
 - Type, **contributions**, **participation**, **savings rates**, how do you feel about the contributions you make, rough assets, participants with balances, how many are terms, vendors, how do you feel about them, any weird assets or provisions
- “Before we start, I wonder if you could just take a few moments to tell us a little bit about your organization and your people and where you are with your retirement plan?”

Ballpark Fact-Finding

- How many owners? Employees?
- Average age and wage of employees?
- Owner ages and incomes?
- If there were no rules, how much would you save and how much would you give your employees?
- What is the minimum contribution level you think you need to be competitive?

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5 employee example

5 employee example

5 employee example

5 employee example with baseline

Two Key Concepts

- Baseline
- Bottom line

Baseline

Law firm

25% to 6% match

Baseline

Anesthesia practice
100% to 6% match

Rolling out a design change

- Change from 100%-6% to 5% new comp
- Maxers lose
- Non-contributors gain
- How should the client communicate this?

Qualified plan stuff we need in our heads

- \$18,000 402(g) + \$6,000 catchup
- \$54,000 415(c)
- \$270,000 401(a)(17)
- $54 - 18 = \$36\text{k}$ employer contribution
- $36 / 270 = 13.333\%$ pro rata contribution to allow owners to max out
- $13.3 / 3 =$ the 1/3 gateway = 4.45% (compare to 5% gateway)
- 10.53% = contribution for employees in an integrated plan
- 7.5% DB/DC combo gateway
- More advanced (but necessary for DB/DC combo):
401(a)(26)

Qualified plan stuff we need in our heads

- \$18,000 + \$6,000
- \$54,000
- \$270,000

Crash course on non-discrimination and cross-testing

- 13.333%
- 10.53%
- 4.45% or 5% or 7.5%
- Age disparity

REMEMBER THE RANGE!



REMEMBER THE RANGE!

Owners age 45, employees age 42



Range

Owners age 30, employees age 50



RANGE

What happens when some owners/HCEs get less



RANGE

Father/owner 55, son/owner 30



RANGE

Set expectations: changing demographics



DB/DC Combo—How much could you contribute?

Age	Conservative Estimate
40	\$100,000
52	\$150,000
65	\$250,000

RANGE

DB/DC combo



Crash course on testing sequence

- The point: have you given the right amount of money to the right people?
- The sequence:
 - Coverage first (you must include the right people in the calculations)
 - Gateway minimum contribution for employees (4.45%, 5%, or 7.5%)
 - Nondiscrimination test
 - Safe harbor (pro rata or integrated)
 - Cross testing (general test under IRC Sec. 401(a)(4))
 - 4.45 to 10.53%

The 70% coverage rule

- Must cover 70% as many NHCEs as HCEs

The 70% coverage rule

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Tax stuff we need in our heads

- \$127,200 taxable wage base (TWB) for paying Social Security tax
- SS tax 6.2% for employee, but doubles to 12.4% for owners
- Medicare tax 1.45% for employees, 2.9% for owners (no upper limit)
- Federal tax brackets (especially top 3: 39.6%,
- State taxes
- Estimated client marginal income tax rate

Federal Income Tax Brackets

Bracket	Single	Married/Joint
10%	\$0 to \$9,325	\$0 to \$18,650
15%	\$9,325 to \$37,950	\$18,650 to \$75,900
25%	\$37,950 to \$91,900	\$75,900 to \$153,100
28%	\$91,900 to \$191,650	\$153,100 to \$233,350
33%	\$191,650 to \$416,700	\$233,350 to \$416,700
35%	\$416,700 to \$418,400	\$416,700 to \$470,700
39.6%	\$418,400+	\$470,700+

Effective vs. Marginal Tax Rates

Estimating marginal tax rates

Business Structure

- C-Corp
 - Double tax unless all income passed through as wages
 - Different classes of shares can pay different dividends
 - Flexible allocation of overhead
- S-Corp
 - Pass-through
 - No flexibility on dividends; one class of shares only
 - More difficult to allocate overhead flexibly
- Partnership/self-employed
 - “Circular” calculations
 - Highly flexible allocation of profits and overhead
- LLC
 - Taxable as either corporation or partnership

Putting it all together

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 - Business entity basics

5 employee refresher

5 employees with lower owner comp

- 5 employees x \$40k = \$200k
- 1 owner at \$100k



5 employees with lower owner comp

- 5 employees x \$40k = \$200k
- 1 owner at \$100k



10 employees

- 10 employees x \$50k = \$500k
- 1 owner at \$270k



100 employees, 15 owners

- 100 employees x \$40k = \$4M
- 15 owners x \$270k = \$4M



20 employees, 3 owners

- 20 employees x \$50k = \$1M
- 3 owners in various life stages: \$500K + \$250k + \$125k = \$875k
 - 60 year-old wants max savings
 - 50 year-old wants \$54k but no more
 - 35 year-old is not yet ready to fund more than \$18k/year

20 employees, 3 owners

- 20 employees x \$50k = \$1M
- 3 owners in various life stages: 60, 50, 35



20 employees, 3 owners: DB/DC

- 20 employees x \$50k = \$1M
- 3 owners in various life stages: 60, 50, 35



Fact-finding about the entity structure

- What type of entity are you? (C, S, LLC, P/sole)
 - If C: do you pass through all income (professional practices often do this)? If not: do you have retained earnings? In what form (i.e., cash vs. less liquid assets)?
 - If LLC: taxed as corporation or partnership? If corporation, C or S?

Who pays for it?

The issue of allocation of overhead

- Method No. 1: Revenue – Cost = Profit to be divided (“aggregated” overhead)
 - \$1M revenue - \$100k pension cost = \$900k left to be divided, so each partner/owner gets a share based on ownership or partnership formula
- Method No. 2: Allocation formula
 - \$1M overhead, allocated among partners based on a formula in the partnership agreement—the basic idea being to have each partner pay the cost he or she actually generates
 - Often an “eat what you kill” formula

20 employees, 3 owners

- 20 employees x \$50k = \$1M
- 3 owners
 - 60 year-old
 - 50 year-old
 - 35 year-old

Quick Rules

- Ratio of employee:owner comp 3:2
- Ratio of employees:owners 10:1
- Implication: the “Wash Rule”
 - At 3:2 or 10:1, it’s a wash
 - At better ratios, it’s cheaper for the owners
 - But a wash is still good (because employees get free money that would otherwise have gone to Uncle Sam)

Quick Rule Examples

- 10:1 rule
 - 10 employees, 1 owner
 - 50 employees, 2 owners
- 3:2 rule
 - Owner makes 100k, five employees total 500k
 - Owner makes 250k, three employees total 500k

Million Dollar Payroll Scenarios



More fact-finding

- If you could save more in the plan, would you?
- Do owners have any family working here?
- Tell me about your culture

Moving from discretionary to SH match—counting the cost

Moving from SH match to nonelective

1/3 Gateway Range



Using the 1/3 gateway

Adding the owner's spouse

The auto-k pitch

Calculating the cost of adding auto-enrollment

Plan design after tax reform?

- Roth deferrals
- Changes to cross-testing rules

Plan design after tax reform

What will employers do if faced with increased costs due to tax reform?

- Take it and move on
- Look for options, such as:
 - Cover fewer employees
 - Give employees less money (or none at all)
 - Terminate plans

Questions?

babycakes cupcake shoppe

The Coming Micro-Market Boom



SEP, SIMPLE, PDIRA, 401(k)/PS

- SEPs are like PS plans: \$54k, pro rata or integrated, ER contributions only; best for self-employed or employers with few employees
- SIMPLEs are like mini-safe harbor 401(k)s
 - 2% nonelective, or
 - 3% match (3 of 5 years); 1% match (2 of 5 years)
- Payroll deduction IRAs (“PDIRA”) is deferral only up to \$5,500

SIMPLE-IRA example

- 10 employees x \$35,000 = \$350,000
- Owner makes \$90,000

Larger SIMPLE example

- 80 employees x \$30,000
- 2 owners x \$270,000

Same case using 1/3 gateway

- 80 employees x \$40,000
- 2 owners x \$270,000

The Simplified SEP Calc for the Self-Employed

- Method 1: circular calc (earned income from self-employment)
- Method 2: 18.6% of profits

SEP vs. SIMPLE: 1 Employee

SEP vs. SIMPLE: 5 Employees