STIFEL

Retirement Plans Quarterly

First Quarter 2014

IRAs FOR 2013 AND 2014

Contributions to traditional and Roth IRAs for the 2013 tax year can be made until (and including) Tuesday, April 15, 2014. Contributions to traditional or Roth IRAs are limited to the lesser of 100% of earned income or $5,500 ($6,500 age 50 or older) for 2013 and 2014. In addition, a spousal contribution may be made to an IRA established for a spouse who has little or no earned income, if the married couple files a joint tax return. The spouse receiving the contribution must be under the age of 70½ for the year in which the contribution is made (applies to traditional IRA, not Roth IRA).

Traditional IRA Deductibility

The tax deduction for a traditional IRA contribution is based on whether an individual is an “active participant” in a qualified retirement plan (QRP), 403(b), SEP, or SIMPLE IRA. If so, the individual's tax return filing status and adjusted gross income (AGI) are considered. If a single individual is not an active participant, contributions, regardless of the individual’s income, are fully deductible. For married couples filing a joint return, if neither spouse is an active participant in a plan, contributions for each are tax-deductible.

Single Filers

If a single individual is an active participant and has AGI of $59,000 ($60,000 for 2014) or less, his or her contribution is fully deductible. A partial deduction is allowed if the AGI is between $59,000 and $69,000 ($60,000 - $70,000 for 2014).

Married Filers Treated Independently

If one spouse is an active participant and the other is not, both individuals’ deductions are subject to different AGI limits. For the spouse who is an active participant, a fully deductible 2013 contribution is allowed with joint AGI of $95,000 ($96,000 for 2014) or less. A partial deduction is available for AGI between $95,000 and $115,000 ($96,000 - $116,000 for 2014). The spouse who is not an active participant may make a fully deductible 2013 contribution if the couple’s AGI is $178,000 ($181,000 for 2014) or less. A partial deduction is allowed if their AGI is between $178,000 and $188,000 ($181,000 - $191,000 for 2014).

Roth Contributions

Contributions to Roth IRAs are always non-deductible, and the following income levels apply:

- **Single individuals** are eligible to make a maximum contribution for 2013 if their AGI does not exceed $112,000 ($114,000 for 2014). Partial contributions are allowed for AGI between $112,000 and $127,000 ($114,000 - $129,000 for 2014).
- Married couples filing jointly are eligible to make a maximum contribution for 2013 if their AGI does not exceed $178,000 ($181,000 for 2014). A partial contribution may be made if AGI is between $178,000 and $188,000 ($181,000 - $191,000 for 2014).

Note that the aggregate total of all contributions to both traditional and Roth IRAs may not exceed $5,500 per individual or $11,000 per married couple, plus catch-up contributions, if applicable.

Comment

January 1 through April 15 is a unique time each year, as this is the only time individuals have the opportunity to make prior and current year traditional or Roth IRA contributions.

The Retirement Plans Comparison Chart (page 2) enables you to survey the various retirement plans while noting their similarities and differences. The Chart can be useful when considering which plan may be best for a business.

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RETIREMENT PLANS
Comparison Chart 2014

PLAN TYPES:	SEP IRA	SIMPLE IRA	PROFIT SHARING	401(k)	401(k) "SAFE HARBOR"	403(b)	DEFINED BENEFIT
PROVISIONS:							
Target Employer:	Small employers, including non-profits	100 or fewer employees and maintains no other plan	All, including non-profits	All, including non-profits, but excluding government entities	All, including non-profits, but excluding government entities	Public education institutions, churches, and nonprofit groups under IRC 501(c)3	All, including non-profits
Eligible Employees:	Employed for 3 of last 5 years, earned $550 in current year, and age 21 or older. Can exclude certain union and non-resident alien employees. Can't exclude part-timers.	Earned $5,000 during any two preceding years and expected to earn $5,000 in current year. Can exclude certain union employees and non-resident aliens.	One year of service, 1,000 hours, age 21 or older. Can exclude certain union employees and non-resident aliens.	One year of service, 1,000 hours, age 21 or older. Can exclude certain union employees and non-resident aliens.	One year of service, 1,000 hours, age 21 or older. Can exclude certain union employees and non-resident aliens.	All employees except non-resident alien, student-employees, employees who work < 20 hours/week, or employees who defer < $200/year.	One year of service, 1,000 hours, age 21 or older. Can exclude certain union employees and non-resident aliens.
Total Maximum Annual Contribution:	$52,000 per person	$24,000 per person, or $29,000 if 50 or older	$52,000 per person	$52,000 per person + catch-up	$52,000 per person + catch-up	$52,000 per person + catch-up	Amount required to fund a benefit up to $210,000/year
Maximum Employer Deductible Contribution:	25% of compensation	Either 2% of compensation to all eligible employees, OR match 100% of the deferral amount up to 3%* of compensation	25% of eligible compensation	25% of eligible compensation	25% of eligible compensation	25% of eligible compensation	Amount required to fund a benefit up to $210,000/year
Maximum Pre-Tax Employee Deferral:	Not available	$12,000, or $14,500 if 50 or older	Not available	$17,500, or $23,000 if 50 or older	$17,500, or $23,000 if 50 or older	$17,500, or $23,000 if 50 or older; 15 years of service catch-up also available	Not Available
Required Employer Contribution:	None, unless plan is top heavy	Either 2% of compensation to all eligible employees, OR match 100% of the deferral amount up to 3%* of compensation	None, unless plan is top-heavy	None, unless plan is top-heavy	Either 3% of compensation to all eligible employees, OR match 100% of the deferral amount up to 3% of compensation and 50% on deferrals of the next 2% of compensation	None	Yes
Vesting Schedule:	100% immediate	100% immediate	Vesting schedules available	Vesting schedules available	100% immediate vesting on safe harbor contribution; can apply vesting to other	Vesting schedules available	Vesting schedules available
Testing Required:	Top-heavy - Yes ADP - No 415 - Yes	Top-heavy - No ADP - No 415 - No	Top-heavy - Yes ADP - No 415 - Yes	Top-heavy - Yes ADP - Yes 415 - Yes	Top-heavy - Yes ADP - exempt 415 - Yes	Top-heavy - No ADP - No; ACP - Yes Church & Gov't plans exempt 415 - Yes	Top-heavy - Yes ADP - Yes, if deferrrals 415 - Yes
Distributions Controlled By:	Employee	Employee	Employer	Employer	Employer	Employer	Employer
Participant Loans:	No	No	Yes	Yes	Yes	Yes	Yes
Establishment Deadline:	Tax-filing deadline, including extensions	October 1	Last day of plan year	Last day of plan year	October 1	Last day of plan year	Last day of plan year
Funding Deadline for Employer Deduction:	Tax-filing deadline, including extensions	Tax-filing deadline, including extensions	Tax-filing deadline, including extensions	Tax-filing deadline, including extensions	Tax-filing deadline, including extensions	Tax-filing deadline, including extensions	Tax-filing deadline, including extensions
5500 Filing:	No	No	Yes, for plans with employees or greater than $250,000	Yes, for plans with employees or greater than $250,000	Yes, for plans with employees or greater than $250,000	Yes, for ERISA plans only.	Yes, for plans with employees or greater than $250,000
Fees:	$10-$40 per account	$10-$40 per account	Administration and recordkeeping fees	Administration and recordkeeping fees	Administration and recordkeeping fees	Administration and recordkeeping fees	Actuary required Highest administration fees

* *May reduce match to 2% or 1% of compensation in two out of five years.*

SEP IRAs STILL AVAILABLE FOR 2013

For business owners whose tax year is based upon the calendar year, December 31, 2013, was the last day a Qualified Retirement Plan (QRP) could be established for 2013. However, employers have until the due date of their federal income tax return for the business, including extensions, to establish a Simplified Employee Pension Plan (SEP) and make contributions to the SEP for 2013.

Contributions

The maximum amount that can be contributed for 2013 on behalf of SEP participants is the lesser of:

- 25 percent of compensation (IRC Sec. 402(h) limit) up to the compensation cap of $255,000 ($260,000 for 2014) or
- $51,000 ($52,000 for 2014)) (IRC Sec. 415(c) dollar limitation)

Benefits

There are several distinct benefits associated with SEPs, such as:

1. They may be established and funded by the business owner's tax filing deadline (plus extensions)
2. Contributions are deposited directly into eligible participant's SEP IRA accounts
3. No IRS Form 5500 reports required
4. Little administration, resulting in low fees
5. Contributions at owner's discretion – Contributions to a SEP are not mandatory for any particular year. An employer may change the percentage of contribution or skip it entirely for any year.

Points to Be Considered

Even though a SEP may seem to be an attractive alternative, employers should be aware of the following conditions:

- **Part-time eligible employees must be included** –The SEP eligibility requirements apply to all employees of the company, even if they are part-time or seasonal workers. The employer may only exclude employees that are covered by a collective bargaining agreement where retirement benefits are part of the bargaining agreement (union employees) and non-resident aliens with no U.S. taxable income.
- **Eligibility rules include the employer** – An employer may elect to allow employees to participant in the plan after performing services for the employer in three of the preceding five years. However, it's important to point out that the employer's business must have been in existence for at least three years prior to the contribution year in order for the owner to be eligible for a contribution under this eligibility criteria.
- **All eligible employees must be included** – There may be a time when an employee, or the employer, may not want to be included in the plan for one reason or another. However, under SEP requirements, if an employer intends to make a contribution for a particular year, all eligible employees must receive a contribution for that year.

Closing Comment

Even though the SEP plan does have its requirements and restrictions, it is a very attractive plan for small business owners who are considering an easy to establish plan with minimal fiduciary responsibility. In addition, it is the only plan that can be established in 2014 to take advantage of a 2013 tax deduction.

401(k) PLAN DESIGN

A plan sponsor's goal(s) for a 401(k) Plan may include one or more of the following: saving for his/her own retirement, offering a low cost employee benefit plan, attracting and retaining valued employees, encouraging employee savings, and particularly benefiting certain employees. To suit these goals, a 401(k) can be designed in various ways. The following **401(k) Facts** often play a decisive role in designing a plan to meet the sponsor's goals.

- In 2014, participants can defer compensation up to $17,500 or $23,000 (if age 50 or older) with a catch-up contribution. The deferrals offered by the plan can be just pre-tax or pre-tax and Roth, after-tax.
- Maximum deferrals for Highly Compensated Employees (HCEs)* may be reduced by a non-discrimination test (except in Safe Harbor Plans as shown below) called the "Actual Deferral Percentage Test" or ADP Test. Under the ADP Test, the average deferral percentage of HCEs is generally limited to 2% higher than the Non-Highly Compensated Employees' (NHCEs) average deferral percentage.
- Employer matching contributions may be needed as an incentive to raise NHCE deferral amounts.
- Failure of the ADP Test may result in the return of a portion of HCE deferrals or required employer contributions.
- Profit Sharing contributions, of up to 25% of participant compensation, can be made using a "cross-tested" formula to particularly benefit certain HCEs.

Traditional 401(k) – No Cost to the Employer

Employers who want to offer an employee benefit plan without incurring cost can consider a 401(k) Plan that offers only salary deferrals.

Whereas the lack of matching contributions provides less incentive for employees to defer their income, the plan can never-the-less offer the employees a superior method of tax-favored savings relative to what they can get on their own. For example, without an employer-sponsored plan, individuals can utilize an IRA allowing annual contributions of up to $5,500 or $6,500 (if age 50 or older) with a catch-up contribution. In comparison, as noted above, a 401(k) Plan can offer far larger contributions.

Plan administration costs can be borne by participant account balances.

Potential pluses: Bona fide employee benefit plan with no cost to the employer.

Potential minuses: Lack of a matching contribution may impact employee deferral amounts and the plan's capacity to attract and/or retain valued employees. HCE deferral amounts may be significantly reduced by the ADP Test.

Traditional 401(k) – Employee Benefit Focused

Employers who want an employee benefit plan in order to encourage savings and attract and retain employees can consider offing a 401(k) with an employer matching contribution. For example, the employer can encourage participants to contribute at least 3% of pay by offering an employer contribution that matches fifty cents on the dollar for the first 3% of pay deferred. And, a matching contribution subject to a vesting schedule can encourage employees to stay with the employer until the matching funds are fully vested, typically after six years.

Offering a matching contribution can help raise the average NHCE deferral percentage and therefore potentially allow greater HCE deferrals under the ADP Test.

Potential pluses: Attract and retain employees; increased retirement savings for participants; potential for greater HCE deferrals.

Potential minuses: The cost of employer matching contributions; the return of a portion of HCE deferrals or required employer contributions if plan fails ADP Test.

Safe Harbor 401(k) Plan

Employers who want the benefits of a traditional 401(k) and to allow HCEs to maximize their deferrals, regardless of what NHCEs contribute, should consider a Safe Harbor 401(k) Plan. A Safe Harbor 401(k) eliminates the ADP test but requires the employer to make a 100%, immediately vested contribution to the NHCEs and, optionally, the HCEs. Safe Harbor contributions can be either: 1) a match of dollar-for-dollar up to 3% of salary deferred and 50 cents on the dollar on the next 2% of salary deferred (potential total outlay of 4%), or 2) a 3% “non-elective” contribution to all eligible employees.

Potential pluses: In addition to Traditional 401(k) pluses, HCE deferrals are not limited by NHCE deferrals.

Potential minuses: In addition to Traditional 401(k) minuses, cost of safe harbor contributions; 100% vested safe harbor contributions can impact employee retention.

Safe Harbor 401(k) With Profit Sharing Contributions

Employers with a ratio of HCEs to NHCEs that is approximately 1:5 may be able to particularly benefit certain HCEs with a Profit Sharing contribution using a “cross-tested” allocation formula. Cross-testing means that the determination of non-discrimination will be based on the projected benefits of participant allocations instead of the allocation amounts.

In order to utilize cross-testing, a minimum “Gateway” contribution of 5% must be made to all NHCEs. In the case of a Safe Harbor 401(k), this means an additional employer outlay of only 2% above the 3% Safe Harbor contribution.

Potential pluses: In addition to Safe Harbor pluses, efficient use of employer contributions for benefitting certain HCE employees.

Potential minuses: In addition to Safe Harbor minuses, additional non-discrimination testing.

401(k) Plan designs vary with the plan sponsor’s goals. The better the plan sponsor knows what he/she wants the plan to accomplish, the better the 401(k) Plan can be designed accordingly.

* Highly Compensated Employees include: 1) a 5% owner of the employer, or 2) an employee earning › $115,000 (2014) in the prior year (and, if employer elects, in the top 20% of employees as ranked by pay).

SAFE HARBOR 401(k) vs. SIMPLE IRA

For small business owners, the choice of a retirement plan will often boil down to Safe Harbor 401(k) vs. SIMPLE IRA. Both satisfy the following two widespread small business owner desires:

1. A plan that allows participant salary deferrals, and
2. The business owner’s deferrals are not limited by the amount of the employees’ deferrals.

So, which plan is better? The answer will often depend on the employer’s desired deferral, the cost of plan administration, and the employer’s required contribution amount. The chart below compares the two plan types.

Plan	Maximum Deferral	Catch-Up Contribution (Age 50 or older)	Maximum Deferral Total	Administration Cost	Required Employer Contribution
SIMPLE IRA	$12,000	$2,500	$14,500	None	Either: • 2% of compensation to all eligible employees, or • Match 100% of first 3% of compensation deferred. May reduce match to 2% or 1% of compensation in two out of five years.
Safe Harbor 401(k)	$17,500	$5,500	$23,000	Yes	Either: • 3% of compensation to all eligible employees, or • Match 100% of first 3% of compensation deferred and 50% on next 2% deferred (potential total outlay of 4%).

For both plans, the type of required contribution elected by the employer each year is often based on the anticipated average deferral percentage by the eligible employees. (In determining this average, eligible employees who do not want to defer are counted as 0%). For example, if the average eligible employee deferral is 1%, then a match will be more cost effective than the required 2% (SIMPLE IRA) or 3% (Safe Harbor 401(k)) contribution to all eligible employees. To gauge the best contribution for the first plan year, an employer can canvass his/her employees about a proposed plan and their anticipated deferral amounts.

Ultimately, it is often the unique interplay of the above factors per employer that will determine which plan is more cost effective.

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