

RETIREMENT PLANNING & EMPLOYEE BENEFITS FOR FINANCIAL PLANNERS
4TH EDITION UPDATES

CHAPTER 4

Multiple Choice #12, Page 179

12. A defined benefit pension plan has a funding formula equal to 1% x years of service x final salary. If Jim's final salary is \$600,000 and Jim has earned 30 years of service, what is Jim's retirement benefit in 2008?
- \$51,000.
 - \$69,000.
 - \$185,000.
 - \$230,000.

The correct answer is b.

$$1\% \times 30 \times \underline{\$230,000} = \underline{\$69,000}.$$

Recall that when calculating the benefit payable from a qualified plan, the compensation in excess of the covered compensation limit (\$230,000 for 2008) is not considered.

Multiple Choice #13, Page 179

13. Accent, Inc. sponsors a 25% money purchase pension plan for its eligible employees. Carlos earns \$200,000, Kevin earns \$60,000, Kelly earns \$250,000, and Rick, who is ineligible, earns \$27,000. What is Accent's required deductible contribution for the year? All employees are under age 50.
- \$107,000.
 - \$122,500.
 - \$127,500.
 - \$134,250.

The correct answer is a.

Accent's deductible contribution for the year would equal the sum of the maximum contributions for each participant. In this problem, the contributions on behalf of Carlos and Kelly would be \$46,000, or the maximum that may be contributed to a defined contribution plan during the year. The contribution on behalf of Kevin would be \$15,000 (\$60,000 x 25%). Therefore, Accent's deductible contribution would equal \$107,000 (\$46,000 + \$46,000 + \$15,000). Rick is ineligible.

Employee	Compensation	25% x Compensation	Maximum Contribution
Carlos	\$200,000	\$50,000	<u>\$46,000</u>
Kevin	\$60,000	\$15,000	\$15,000
Kelly	\$250,000	<u>\$57,500</u> ¹	<u>\$46,000</u>
Rick	\$27,000	\$0 ²	\$0 ²
TOTAL	\$537,000		<u>\$107,000</u>

Notes:

1 - Kelly's compensation is limited to \$230,000.

2 - Rick is not covered by the plan.