Retirement Planning and Employee Benefits for Financial Planners
6th Edition Updates

Chapter 3 Page 89, Exhibit 3.10

Exhibit 3.10 should reflect a notation regarding the vesting schedule for Cash Balance Pension Plans. The change is in red.

PPA Defined Benefit Plan Vesting Schedule

Years of Service	All Employer* Contributions		2-Year Eligibility Election	Top-Heavy Plan	
	3 to 7 Year Graduated	5-Year Cliff		2 to 6 Year Graduated	3-Year Cliff
1	0	0	0	0	0
2	0	0	100%	20%	0
3	20%	0	100%	40%	100%
4	40%	0	100%	60%	100%
5	60%	100%	100%	80%	100%
6	80%	100%	100%	100%	100%
7	100%	100%	100%	100%	100%

* Note that under IRC Section 411(a)(13)(B), a Cash Balance Pension Plan provides for 100% vesting of employer contributions after three years of employee service.

Chapter 3 Page 91, Example 3.31

Example 3.31 should reflect a notation regarding the vesting schedule for Cash Balance Pension Plans. The changes are in red.

The following chart illustrates various sample vesting schedules for a *defined benefit plan* and whether they meet the qualified, non-top-heavy plan vesting requirements.

Years of Service	Permitted 3 to 7 Graduated	Permitted 5-Year* Cliff	Permitted Schedule (A)	Not Permitted Schedule (B)	Permitted Schedule (C)	Not Permitted Schedule (D)
1	0	0	5%	5%	0	0
2	0	0	10%	10%	5%	5%
3	20%	0	20%	**15%**	10%	20%
4	40%	0%	60%	60%	15%	**30%**
5	60%	100%	80%	80%	100%	60%
6	80%	100%	100%	100%	100%	80%
7	100%	100%	100%	100%	100%	100%

* Note that under IRC Section 411(a)(13)(B), a Cash Balance Pension Plan provides for 100% vesting of employer contributions after three years of employee service.

CHAPTER 5, PAGE 211

The first paragraph under DB(k) Retirement Plan, should read as follows. The change is in red.

A **DB(k) retirement plan** incorporates, under one single plan with a single trust, a defined benefit plan combined with a 401(k) arrangement. For plan years beginning in 2010 and later, a DB(k) plan can be established by a sponsoring employer who employs an average of 2 to 500 workers in the preceding calendar year and employs at least 2 workers at the beginning of the plan year (for a new employer the determination is based on the average number of employees anticipated to employ during the current calendar year). The defined benefit and defined contribution components must meet the benefit, contribution, vesting and nondiscrimination requirements under IRC Section 414(x). Note that under IRC Section 414(x), after three years of service the employee has a nonforfeitable right to 100 percent of employee's accrued benefits derived from employer contributions under the defined benefit portion of the plan, and to employer nonelective contributions made under the defined contribution portion of the plan.

CHAPTER 5, PAGES 196 - 197, EXAMPLE 5.14

The following example should read as follows. The changes are in red.

Boo Company sponsors a 401(k) plan with ten eligible employees. Each employee can defer up to 70 percent of their compensation limited to the annual deferral limit. The employees made the following deferral elections:

Basic Data				
Employee	**Ownership**	**Compensation**	**Elective deferral**	**ADR**
A	60%	$200,000	$11,000	5.5%
B	30%	$140,000	$9,800	7.0%
C	5%	$110,000	$11,000	10.0%
D	3%	$80,000	$8,000	10.0%
E	2%	$50,000	$2,500	5.0%
F	-	$30,000	$3,000	10.0%
G	-	$25,000	-	0.0%
H	-	$25,000	$1,000	4.0%
I	-	$25,000	-	0.0%
J	-	$20,000	$500	2.5%

	Alternative A		Alternative B	
	HC definition without election*		HC definition with election*	
Employee	**HC**	**NHC**	**HC**	**NHC**
A	5.5%		5.5%	
B	7.0%		7.0%	
C	10.0%			10.0%
D		10.0%		10.0%
E		5.0%		5.0%
F		10.0%		10.0%
G		0%		0%
H		4%		4%
I		0%		0%
J		2.5%		2.5%
Average	**7.5%**	**4.5%**	**6.25%**	**5.19%**

** Election to include only top 20% of employees as determined by compensation as HC.*

Who is highly compensated in the example?

- Employee A and B are clearly highly compensated because of their ownership percentage.
- Employee C is highly compensated based on his income of $110,000. However, if the definition for highly compensated included the election of being in the top 20 percent of paid employees, then Employee C would be a NHC. Although Employee C owns 5% of the company, he is not a "5% owner" because he is not a more than 5% owner of the company.
- Employees D through J are all NHC employees.

Alternative A and Alternative B demonstrate the difference of treatment depending upon whether the top 20% election is made or not.

Following Alternative A (without the top 20% election), the ADP of the HCs is 7.5%, while the ADP for the NHCs is 4.5%. Referring to the table above, with the NHCs ADP equal to 4.5%, the ADP for the HCs should be no greater than 6.5% - two percentage points more than the ADP for the NHCs. Therefore, the plan fails the ADP test.

See the discussion below for remedies.

HC	NHC
ADP of HC - 7.5	ADP of NHC must be equal to 6.5 = 4.5% + 2%

Following Alternative B (with the top 20% election), the ADP of the HCEs is 6.25%, while the ADP for the NHC employees is 5.19%. Based on these figures, the plan complies with the ADP test. Notice that in this example, the difference between passing the ADP and not passing is how the plan defined the definition of highly compensated. By electing the top 20% of paid employees, Employee C shifted from the HC category to the NHC category. This example illustrates one reason an employer might choose the 20% election as the definition of highly compensated.