

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 3 PAGE 95, EXAMPLE 3.34

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

John owns five percent of the stock of Market Resources, Inc. and receives an annual salary of \$110,000. Even though John is an owner, he is not considered a key employee because his ownership percentage is not greater than five percent, and even though he is a greater than one percent owner, his income is not greater than **\$165,000** for 2010.

CHAPTER 4, PAGE 141

The second paragraph under Integration with Social Security - Permitted Disparity for Defined Benefit Plans, should read as follows. The change is in red.

The two primary parts of the Social Security system are OASDI (Old Age Survivor Disability Insurance) and Medicare taxes. Both employers and employees each contribute to the system through FICA payments that consist of 6.2 percent for OASDI and 1.45 percent for Medicare. The OASDI portion of 6.2 percent applies to income up to the Social Security wage base (\$106,800 for 2010), while the Medicare portion applies to all income with no limit. In effect, the Social Security system does not consider income that exceeds the wage base for purposes of retirement benefits. Therefore, an individual who earns **\$106,800** will be treated exactly the same as someone who earns \$1,000,000 for purposes of retirement benefits and for purposes of the amount of income that is subject to the 6.2 percent OASDI tax.

CHAPTER 5, PAGE 186, EXHIBIT 5.5

Box 1 should read as follows. The change is in red.

a Control number 30096		22222	Void <input type="checkbox"/>	For Official Use Only ▶ OMB No. 1545-0008			
b Employer identification number (EIN) 35-1234567			1 Wages, tips, other compensation 133,500.00	2 Federal income tax withheld 34,000.00			
c Employer's name, address, and ZIP code Best Employer 99 Company Drive City, GA 12345			3 Social security wages 106,800.00	4 Social security tax withheld 6,622.00			
			5 Medicare wages and tips 150,000.00	6 Medicare tax withheld 2,175.00			
			7 Social security tips	8 Allocated tips			
d Employee's social security number 35-1234567			9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial Best		Last name Employee		11 Nonqualified plans		12a See instructions for box 12 C 81.28	
Best Employee 100 Best Drive City, GA 12345			13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b D 16,500.00			
			14 Other	12c			
				12d			
f Employee's address and ZIP code							
15 State GA	Employer's state ID number 9876543210	16 State wages, tips, etc. 134,500.00	17 State income tax 6,800.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2** Wage and Tax Statement **2009** Department of the Treasury—Internal Revenue Service
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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.

CHAPTER 5, PAGE 223, MULTIPLE CHOICE # 16 (SOLUTIONS MANUAL PAGE 66)

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

ABC Company has three employees: Ann, Brenda, and Curtis. Their compensations are \$50,000, \$150,000, and \$200,000 respectively. ABC is considering establishing a straight 10% profit sharing plan or an integrated profit sharing plan using a 10% contribution for base compensation and **15%** for excess compensation. Which of the following statements are correct?

- If the integrated plan is selected, then the total contribution for all employees is \$47,229.
- The effect of the integrated plan results in an increase in Brenda's contribution of \$5,586.
- If the integrated plan is selected, the base contribution for all employees is \$49,000.
- If the integrated plan is selected, Curtis' total contribution is \$17,736.

The correct answer is a.

If ABC selected the 10% profit sharing plan, the amount for the employer contributions is \$5,000 for Ann, \$15,000 for Brenda, and \$20,000 for Curtis. Alternatively, if ABC established an Integrated Plan using a 10% base contribution and a **15%** excess contribution, more benefit could be allocated to Brenda and Curtis. Using an integrated plan, Brenda would receive a \$17,290 contribution (\$2,290 more than with a straight 10% PSP) and Curtis would receive a \$24,939 contribution (\$4,939 more than with a straight 10% PSP).

10% PROFIT SHARING PLAN			INTEGRATED					
Employee	Covered Comp	10% Profit Sharing	Base Comp	10% of Base	Excess Comp	15% on Excess	Total Cont	Effect of Permitted Disparity
Ann	\$50,000	\$5,000	\$50,000	\$5,000	\$0	\$0	\$5,000	\$0
Brenda	\$150,000	\$15,000	\$106,800	\$10,680	\$43,200	\$6,610	\$17,290	\$2,290
Curtis	\$200,000	\$20,000	\$106,800	\$10,680	\$93,200	\$14,259	\$24,939	\$4,939
Totals	\$400,000	\$40,000	\$263,600	\$26,360	\$136,400	\$20,869	\$47,229	\$7,229

Rounded to the nearest dollar.

CHAPTER 7, PAGE 332, MULTIPLE CHOICE # 12 (SOLUTIONS MANUAL PAGE 86)

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

Nancy, age 70 on February 2, 2010, had the following account balances in a qualified retirement plan.

12/31/2007	\$300,000
12/31/2008	\$350,000
12/31/2009	\$500,000
12/31/2008	\$478,000
12/31/2011	\$519,000
12/31/2012	\$600,000

Assuming that Nancy is retired and has never taken a distribution prior to 2010, what is the total amount of minimum distribution required in **2011**? Life expectancy factors according to the uniform life table are 27.4 for a 70 year old and 26.5 for a 71 year old.

- \$18,038.
- \$18,248.
- \$35,597.
- \$36,286.

The correct answer is d.

For 2010, look back to 2009: $\$500,000 \div 27.4 = \$18,248$

For 2011, look back to 2010: $\$478,000 \div 26.5 = \$18,038$

$\$18,248 + \$18,038 = \$36,286$

CHAPTER 8, PAGES 362 - 363, EXAMPLE 8.8

Steps 2 and 3 in the following example should read as follows. The changes are in red.

Step 2: Calculate Self-Employment Tax:

\$200,000	Net Self-Employment Income
x 0.9235	Times: 92.35%
<hr/>	
\$184,700	Net Earnings subject to Self-Employment Tax
x 15.3%/2.9%	Times: 15.3% up to \$106,800 + 2.9% over \$106,800 (\$77,900)
<hr/>	
\$18,599	Equals: Self-Employment Tax (\$16,340.40 + \$2,259.10)
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Step 3: Calculate the self-employed individual's contribution:

\$200,000	Net Self-Employment Income
\$9,299	Less: $\frac{1}{2}$ of Self-Employment Taxes (50% x \$19,043.20)
<hr/>	
\$190,700	Equals: Adjusted Net Self-Employment Income
x 0.20	Times: Self-Employed Contribution Rate
<hr/>	
\$38,140	Equals: Self-Employed Individual's Qualified Plan Contribution
<hr/> <hr/>	

Check figure:

$$\frac{\$38,140}{\$190,700 - \$38,140} = 25\%$$

CHAPTER 8, PAGE 363, EXAMPLE 8.9

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

Thus, in the example above, Jack's earned income is calculated as follows:

\$200,000	Schedule C net income
- \$9,299	Less: ½ self-employment taxes
- \$38,140	Less: Keogh contribution
\$152,561	Earned income
x 0.25	Times: 25% to determine Keogh contribution
\$38,140.25	Total Keogh contribution

Notice that the maximum Keogh contribution is exactly 25% of the earned income.

CHAPTER 9, PAGE 406, EXAMPLE 9.9

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

Fred is single, age 38, and an active participant in his employer's qualified retirement plan. His AGI for 2008 is \$57,000, and he makes the maximum contribution to his traditional IRA.

$$\text{Reduction} = \$5,000 \times \frac{\$57,000 - \$56,000}{\$10,000} = \$500$$

Thus, Fred's traditional IRA deduction for 2008 is reduced by \$500 to \$4,500 (\$5,000 - \$500).

CHAPTER 9, PAGE 449, MULTIPLE CHOICE # 7

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

Phillip, who is currently age 52, made his only contribution to his Roth IRA in **2008** in the amount of \$5,000. If he were to receive a total distribution of \$8,000 from his Roth IRA in the year 2012 to purchase a new car, how would he be taxed?

- Since Phillip waited five years, the distribution will be classified as a "qualified distribution" and will therefore not be taxable or subject to the 10% early distribution penalty.
- Since Phillip waited five years, the distribution will be classified as a "qualified distribution" and will therefore not be taxable but will be subject to the 10% early distribution penalty.
- Although Phillip waited five years, the distribution will not be classified as a "qualified distribution" and will therefore be taxable and will be subject to the 10% early distribution penalty.
- Although Phillip waited five years, the distribution will not be classified as a "qualified distribution" and will therefore be taxable to the extent of earnings and will be subject to the 10% early distribution penalty on the amount that is taxable.

CHAPTER 9, PAGE 458, MULTIPLE CHOICE # 11 (SOLUTIONS MANUAL PAGE 112)

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

What is the first year in which a single taxpayer, age 54 in 2010, could receive a qualified distribution from a Roth IRA if he made his first \$3,500 contribution to the Roth IRA on April 1, 2011, for the tax year 2010?

- a. 2013.
- b. 2014.
- c. 2015.
- d. 2016.

The correct answer is c.

A qualified distribution can only occur after a five-year period has occurred and is made on or after the date on which the owner attains age 59½, made to a beneficiary or the estate of the owner on or after the date of the owner's death, attributable to the owner's being disabled, or for a first-time home purchase. The five-year period begins at the beginning of the taxable year of the initial contribution to a Roth IRA. The five-year period ends on the last day of the individual's fifth consecutive taxable year beginning with the taxable year described in the preceding sentence. Therefore, the first year in which a qualified distribution could occur is **2015**.