



# Table of Contents

## Chapter 1 - Introduction to Retirement Planning

Introduction .....	1
Interested Parties .....	2
Employees .....	2
Employers .....	4
Professionals and Institutions .....	6
Government .....	7
Perspective of the Text .....	8

## Chapter 2 - Retirement Accumulations and Distributions

Factors Affecting Retirement Planning .....	11
Remaining Work Life Expectancy (RWLE) .....	11
Retirement Life Expectancy (RLE) .....	13
The WLE and the RLE Relationship .....	14
Savings and Investment Issues .....	15
The Savings Amount .....	15
Savings Rate .....	17
Timing of Savings .....	18
Investment Decisions .....	19
Inflation .....	20
Managing Retirement Distribution .....	21
4% of Capital Balance Approach .....	21
Money-for-Life Approach .....	22
Intragenerational Neutrality Approach .....	23
Retirement Needs Analysis .....	24
Planning for Retirement - Pretax or After-Tax .....	25



<b>Wage Replacement Ratio (WRR)</b> .....	25
Calculating the Wage Replacement Ratio .....	25
<b>Sources of Retirement Income</b> .....	29
Social Security .....	29
Private Pension and Company-Sponsored Retirement Plans .....	31
Personal Assets and Savings .....	31
<b>Qualitative Factors in Retirement – Advising Clients</b> .....	32
<b>Summary of Factors Affecting Retirement Planning</b> .....	33
<b>Risks to Financial Independence</b> .....	35
<b>Capital Needs Analysis</b> .....	36
Accurate Assumptions .....	36
Basic Planning – Capital Needs Analysis/Annuity Method .....	37
Advanced Financial Planning – Capital Preservation Model (CP) .....	39
Advanced Planning – Purchasing Power Preservation Model (PPP) .....	41
Range Estimates, Sensitivity Analysis, Simulations, and Monte Carlo Analysis .....	42
<b>Key Terms</b> .....	47
<b>Discussion Questions</b> .....	48
<b>Multiple Choice Problems</b> .....	50
<b>Quick Quiz Explanations</b> .....	55

---

## Chapter 3 - Qualified Plan Overview

---

<b>Introduction</b> .....	57
<b>Pension Plans vs. Profit Sharing Plans</b> .....	59
<b>Defined Benefit vs. Defined Contribution</b> .....	60
Taxation of Contributions to Plans .....	62
<b>Advantages of Qualified Plans</b> .....	62
Tax Deferral of Qualified Plan Earnings and Income .....	65
ERISA Protection .....	66
Special Taxation Options for Lump-Sum Distributions .....	68
Plan Document .....	70
Eligibility .....	70
<b>Qualification Requirements</b> .....	70
Coverage .....	74
Vesting .....	87
Top-Heavy Plans .....	94
Actual Deferral Percentage/Actual Contribution Percentage .....	100
Plan Limitations on Benefits and Contributions .....	100
<b>Controlled Group</b> .....	106
Employee Plans Compliance Resolution System (EPCRS) .....	107
<b>Key Terms</b> .....	108

Discussion Questions .....	111
Multiple Choice Problems .....	113
Quick Quiz Explanations .....	119

---

## Chapter 4 - Qualified Pension Plans

---

<b>Introduction .....</b>	<b>121</b>
<b>Pension Plan Characteristics .....</b>	<b>124</b>
Mandatory Funding .....	124
Disallowance of In-Service Withdrawals .....	128
Limited Investment in Employer Securities .....	128
Limited Investment in Life Insurance .....	129
412(i) Plan .....	131
<b>Defined Benefit Pension Plans vs. Defined Contribution Pension Plans .....</b>	<b>132</b>
The Actuary .....	132
Investment Risk .....	133
Allocation of Forfeitures .....	136
Pension Benefit Guaranty Corporation Insurance .....	137
Benefits - Accrued Benefit/Account Balance .....	139
Credit for Prior Service .....	140
Integration with Social Security - Permitted Disparity for Defined Benefit Plans .....	141
<b>Defined Benefit Pension Plans .....</b>	<b>144</b>
Establishing the Formulas for Benefits .....	144
Commingled Accounts .....	147
Younger/Older .....	147
Eligibility/Coverage/Vesting .....	147
Distributions .....	148
<b>Cash Balance Pension Plans .....</b>	<b>148</b>
Contributions and Earnings .....	148
Quasi-Separate Accounts .....	149
Younger/Older .....	149
Eligibility/Coverage/Vesting .....	149
Distributions .....	149
Conversions to a Cash Balance Plan .....	150
<b>Money Purchase Pension Plans .....</b>	<b>153</b>
Contribution Limit .....	153
Separate Accounts .....	154
Younger/Older .....	154
Impact of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA 2001) .....	154
Eligibility/Coverage/Vesting .....	155
Distributions .....	155
<b>Target Benefit Pension Plans .....</b>	<b>156</b>
<b>Key Terms .....</b>	<b>158</b>

Discussion Questions .....	160
Multiple Choice Problems .....	161
Quick Quiz Explanations .....	165

---

## Chapter 5 - Profit Sharing Plans

---

<b>Profit Sharing Plans</b> .....	<b>167</b>
Contributions and Deductions .....	169
Allocations .....	170
Eligibility .....	180
Vesting .....	180
Distributions .....	180
<b>Cash or Deferred Arrangements (CODA) [401(k) Plans]</b> .....	<b>181</b>
Establishing a 401(k) Plan .....	182
Eligibility .....	183
Vesting .....	184
Participation .....	185
Employee Contributions .....	185
Employer Contributions .....	190
Nondiscrimination Testing .....	193
Actual Deferral Percentage Test (ADP) .....	193
Actual Contribution Percentage (ACP) .....	202
Safe Harbor 401(k) Plans .....	202
Plan Loans .....	205
Distributions .....	205
DB(k) Retirement Plan .....	211
(Combined Defined Benefit and Defined Contribution Plan) .....	211
<b>Key Terms</b> .....	<b>212</b>
<b>Discussion Questions</b> .....	<b>215</b>
<b>Multiple Choice Problems</b> .....	<b>217</b>
<b>Quick Quiz Explanations</b> .....	<b>224</b>

---

## Chapter 6 - Stock Bonus Plans and Employee Stock

---

<b>Introduction</b> .....	<b>227</b>
<b>Stock Bonus Plans</b> .....	<b>228</b>
Advantages and Disadvantages of Stock Bonus Plans .....	228
Features of Stock Bonus Plans as Compared to Profit Sharing Plans .....	229
<b>Employee Stock Ownership Plans</b> .....	<b>237</b>
The ESOP Transaction .....	238
Voting .....	243

Contributions to ESOPs .....	243
Distributions .....	245
Diversification Issues .....	248
Put Options .....	250
The ESOP Trustee and “Inherent” Conflicts .....	252
S Corporations’ Role as an Owner of ESOPs .....	256
Summary .....	258
<b>Key Terms .....</b>	<b>260</b>
<b>Discussion Questions .....</b>	<b>262</b>
<b>Multiple Choice Problems .....</b>	<b>263</b>
<b>Quick Quiz Explanations .....</b>	<b>268</b>

---

## Chapter 7 - Distributions from Qualified Plans

---

<b>Introduction .....</b>	<b>269</b>
<b>Distribution Options .....</b>	<b>269</b>
Pension Plans .....	270
Profit Sharing Plans .....	275
<b>Taxation of Distributions .....</b>	<b>275</b>
Rollovers .....	276
Adjusted Basis .....	281
Lump-Sum Distributions .....	282
Qualified Domestic Relations Order .....	292
Plan Loans .....	295
<b>Distributions Prior to 59½ .....</b>	<b>301</b>
Early Withdrawal Penalty .....	301
<b>Minimum Distributions .....</b>	<b>307</b>
Calculating the Required Minimum Distribution .....	310
Effect of Participant’s Death on Minimum Distributions .....	317
<b>Planning for Qualified Plans and IRA Beneficiaries .....</b>	<b>325</b>
Creditor Protection .....	325
<b>Key Terms .....</b>	<b>326</b>
<b>Discussion Questions .....</b>	<b>328</b>
<b>Multiple Choice Problems .....</b>	<b>329</b>
<b>Quick Quiz Explanations .....</b>	<b>335</b>

---

## Chapter 8 - Installation, Administration, and Termination

---

<b>Introduction</b> .....	337
<b>Qualified Plan Selection</b> .....	337
Business Objectives .....	338
Employee Census .....	339
Cash Flow Considerations .....	340
Administration Costs .....	340
Owner's Business and Personal Objectives .....	342
Plan Selection Application .....	342
<b>Establishing a Qualified Plan</b> .....	347
Adopting a Written Plan .....	347
Notifying Eligible Employees .....	351
Qualified Trust .....	356
Investing Plan Assets .....	357
<b>Administration</b> .....	359
Operating the Plan .....	359
Prohibited Transactions .....	371
ERISA and Filing Requirements .....	374
Reasons to Amend or Terminate a Plan .....	382
<b>Amending and Terminating a Qualified Plan</b> .....	382
Amending a Qualified Plan .....	383
Terminating a Qualified Plan .....	384
Plan Freeze .....	387
<b>Key Terms</b> .....	388
<b>Discussion Questions</b> .....	390
<b>Multiple Choice Problems</b> .....	391
<b>Quick Quiz Explanations</b> .....	396

---

## Chapter 9 - IRAs and SEPs

---

<b>Introduction</b> .....	397
<b>Individual Retirement Arrangement</b> .....	399
Traditional IRAs .....	399
IRA Annuity vs. IRA Accounts .....	415
Roth IRAs .....	416
Comparing Roth IRAs to Traditional IRAs .....	426
Other IRA Issues .....	426
<b>Simplified Employee Pension (SEPs)</b> .....	434
Participation .....	435
Establishment of a SEP .....	436

Contributions .....	438
Deductions .....	439
Vesting and Withdrawals .....	440
<b>Salary Reduction Simplified Employee Pension (SARSEPs) .....</b>	<b>440</b>
SARSEP ADP Test .....	441
Elective Deferral Limit .....	441
Excess Deferrals .....	442
<b>Key Terms .....</b>	<b>443</b>
<b>Discussion Questions .....</b>	<b>445</b>
<b>Multiple Choice Problems .....</b>	<b>447</b>
<b>Quick Quiz Explanations .....</b>	<b>453</b>

---

## Chapter 10 - Simple, 403(b), and 457 Plans

---

<b>Introduction .....</b>	<b>455</b>
<b>SIMPLEs .....</b>	<b>456</b>
Types of SIMPLEs .....	457
Establishing a SIMPLE .....	457
SIMPLE IRAs .....	467
SIMPLE 401(k) Plans .....	471
Conclusion .....	473
<b>403(b) Plans or Tax Sheltered Annuities (TSAS) .....</b>	<b>475</b>
Definition of a 403(b) Plan .....	475
ERISA Applicability .....	476
Eligibility .....	477
Employee Contributions .....	478
Employer Contributions .....	481
Investment Choices and Limitations .....	482
Loans .....	483
Distributions .....	484
Rollovers to/from 403(b) Plans .....	484
Minimum Distribution Requirements .....	485
Taxation of 403(b) Distributions .....	485
Qualified Joint and Survivor Annuity .....	485
The Benefits of 403(b) Plans and Contributing to 403(b) Plans .....	486
Similarities and Differences Between 401(k) Plans and 403(b) Plans .....	486
<b>457 Plans .....</b>	<b>487</b>
Definition of a 457 Plan .....	487
Entities That Can Establish 457(b) Plans .....	488
ERISA Applicability .....	489
Eligibility .....	491
Employee Contributions .....	491
Employer Contributions .....	493

No Integration with Other Salary Deferral Plans .....	493
Distributions .....	494
Rollovers .....	494
Benefits and Disadvantages of a Section 457 Plans .....	495
Section 457(f) “Ineligible” Plans .....	495
<b>Key Terms .....</b>	<b>499</b>
<b>Discussion Questions .....</b>	<b>501</b>
<b>Multiple Choice Problems .....</b>	<b>502</b>
<b>Quick Quiz Explanations .....</b>	<b>507</b>

---

## Chapter 11 - Social Security

---

<b>Introduction .....</b>	<b>509</b>
<b>Social Security Taxes and Contributions .....</b>	<b>511</b>
Covered Workers and Insured Status .....	514
<b>Social Security Benefits – Eligibility and Calculations .....</b>	<b>514</b>
Social Security Beneficiaries.....	515
Social Security Retirement Benefits – A Closer Look .....	518
The Retirement Benefit Calculation .....	519
<b>Taxation of Social Security Benefits .....</b>	<b>531</b>
Disability Benefits and Disability Insured .....	537
<b>Other Social Security Benefits .....</b>	<b>537</b>
Family Benefits .....	538
Survivors’ Benefits .....	538
<b>The Maximum Family Benefit .....</b>	<b>539</b>
<b>Medicare Benefits .....</b>	<b>541</b>
Medicare Part D Subsidy .....	544
Other Medicare Health Plan Choices .....	545
<b>Supplemental Security Income Benefits .....</b>	<b>546</b>
<b>Filing for Social Security Claims .....</b>	<b>546</b>
<b>Other Issues .....</b>	<b>547</b>
Effect of Marriage or Divorce on Benefits .....	547
Change of Name .....	548
Leaving the United States .....	548
<b>Key Terms .....</b>	<b>551</b>
<b>Discussion Questions .....</b>	<b>553</b>
<b>Multiple Choice Problems .....</b>	<b>554</b>
<b>Quick Quiz Explanations .....</b>	<b>558</b>

---

## Chapter 12 - Deferred Compensation and Nonqualified

---

<b>Introduction</b> .....	<b>559</b>
Wage Replacement Ratio .....	560
IRC Section 409A .....	562
Deferred Executive Compensation .....	563
<b>Income Tax Issues</b> .....	<b>564</b>
Constructive Receipt .....	564
Substantial Risk of Forfeiture .....	565
Economic Benefit Doctrine .....	566
IRC Section 83: Property Transferred in Connection with Performance of Service .....	567
Payroll Tax .....	568
Employer Income Tax Deduction .....	569
<b>Funding Arrangements and Types of Nonqualified Deferred Compensation Plans</b> .....	<b>569</b>
Unfunded Promise to Pay .....	570
Secular Trust .....	570
Rabbi Trust .....	571
Funding with Insurance .....	574
Phantom Stock Plans .....	574
Title I of ERISA .....	575
Types and Applications of NQDC Plans .....	575
401(k) Wrap Plan .....	576
<b>Employer Stock Options and Stock Plans</b> .....	<b>578</b>
Stock Options .....	578
Incentive Stock Options (ISOs) .....	579
Nonqualified Stock Options (NQSOs) .....	585
Stock Appreciation Rights .....	587
Restricted Stock Plans .....	589
Employee Stock Purchase Plans (ESPP) .....	591
<b>Key Terms</b> .....	<b>596</b>
<b>Discussion Questions</b> .....	<b>599</b>
<b>Multiple Choice Problems</b> .....	<b>600</b>
<b>Quick Quiz Explanations</b> .....	<b>606</b>

---

## Chapter 13 - Employee Benefits: Fringe Benefits

---

<b>Introduction</b> .....	<b>607</b>
Fringe Benefits Defined .....	607
Taxation of Fringe Benefits .....	608
Nondiscrimination of Fringe Benefits .....	609
Benefiting Individuals .....	609
Summary of Available Fringe Benefits .....	610

<b>Specific Fringe Benefits</b> .....	<b>611</b>
Meals and Lodging Provided by the Employer to the Employee .....	611
Athletic Facilities Furnished by the Employer .....	617
Educational Assistance Programs .....	619
Dependent Care Assistance .....	621
“No-Additional-Cost Services” .....	622
Qualified Employee Discounts .....	625
Working Condition Fringe Benefits .....	626
“De Minimis” Fringe Benefits .....	628
Qualified Moving Expense Reimbursement .....	635
Qualified Transportation and Parking .....	636
Adoption Assistance Programs .....	638
Awards and Prizes .....	638
Qualified Tuition Reduction Plans .....	640
<b>Valuation Rules Applying to Fringe Benefits</b> .....	<b>641</b>
The General Valuation Rule .....	641
The Cents Per Mile Rule .....	642
The Commuting Rule .....	643
The Lease Value Rule .....	644
The Unsafe Conditions Commuting Rule .....	647
<b>Key Terms</b> .....	<b>648</b>
<b>Discussion Questions</b> .....	<b>650</b>
<b>Multiple Choice Problems</b> .....	<b>652</b>
<b>Quick Quiz Explanations</b> .....	<b>658</b>

---

## Chapter 14 - Employee Benefits: Group Benefits

---

<b>Introduction</b> .....	<b>659</b>
<b>Medical Plans</b> .....	<b>660</b>
Group Medical Insurance .....	660
Income Tax Implications .....	661
COBRA Provisions .....	661
<b>Group Term Life Insurance</b> .....	<b>663</b>
Definition of Employee and Requirements .....	664
S Corporation Shareholders .....	665
Income Tax Treatment .....	665
Key Employees .....	667
Coverage for Dependents .....	667
<b>Group Disability Insurance</b> .....	<b>668</b>
<b>Cafeteria Plans</b> .....	<b>668</b>
Uses and Applications .....	668
Benefits Provided .....	669
Income Tax Implications .....	670

<b>Flexible Spending Accounts</b> .....	<b>671</b>
Income Tax Implications .....	672
<b>Other Employee Benefits</b> .....	<b>674</b>
Medical Savings Accounts .....	674
Health Savings Accounts .....	675
Voluntary Employees' Beneficiary Association (VEBA) .....	676
Contributions .....	677
Salary Continuation Plans .....	678
Group Long-Term Care Insurance .....	678
Group Retirement Planning Services .....	679
<b>Employer/Employee Insurance Arrangements</b> .....	<b>680</b>
Business Continuation (Buy/Sell) Plans .....	680
Business Disability Plans .....	681
Split-Dollar Life Insurance Arrangement .....	681
Key Person Life and Disability Insurance .....	683
<b>Key Terms</b> .....	<b>684</b>
<b>Discussion Questions</b> .....	<b>686</b>
<b>Multiple Choice Problems</b> .....	<b>687</b>
<b>Quick Quiz Explanations</b> .....	<b>692</b>

---

## Appendix

---

<b>Appendix A: Glossary</b> .....	<b>693</b>
<b>Appendix B: Index</b> .....	<b>715</b>

