LDSCO Growing in Dallas

We are happy to announce that as of Feb. 1, 2016, **Recordkeeping & Consulting Co**. has teamed up with **Loren D. Stark Company, Inc.** to merge retirement plan administration and consulting services. Pictured are Dayton Stark of LDSCO and Dale Morgan of Recordkeeping & Consulting Co. in Dallas.

Visit Our Website

Amber Momin
LDSCO Distributions Dept.

New IRS Correction Program for 401(k) Plans That Missed the April 30th Deadline

Every 6 years, the IRS requires companies sponsoring a retirement or pension plan to sign updated plan documents. For 401(k) and profit sharing plans, this "once every 6 years" deadline meant updated plan documents had to be signed by April 30, 2016.

For companies sponsoring 401(k) or profit sharing plans which failed to sign their updated plan documents by April 30, 2016, the IRS has created a special program. For plans with 20 or fewer employees participating in the plan, the plan can pay the IRS a $500 fee and file an application with the IRS explaining why the updated plan document was not signed by April 30, 2016. If you signed your updated plan document by April 30, 2016 but forgot to send us a copy of the signature pages, please do so as soon as possible. If you forgot to sign by April 30th, please let us know so we can start the paperwork for the IRS.

The IRS is reminding plan sponsors that if they failed to sign updated 401(k) or profit sharing plan documents by the April 30th deadline, the plan is no longer entitled to tax-favorable treatment, including tax deductions for contributions or tax-free rollovers for distributions from the plan until it is corrected. The IRS has posted information about this new correction program on their website here. If you have any questions, please give us a call at 281-498-5777.

Amber started working with the LDSCO family in 2007 as a summer intern in the Clerical Department. In 2008, she joined the Distribution Department as a full time employee and has been working in this department for almost 8 years. Currently, she is pursuing her bachelor's degree in business. She is also working on her DC examination. In addition, she has been providing volunteer service at church ever since 2006. Amber moto: "Being organized and clean is my number one pet peeve. I believe that organization and cleanliness is a key to follow in life."

Maximum Savings in a Tax Qualified Retirement Plan

By Cliff Woodhall, EA, MSPA, CPC

Chief Actuary

There is a cap on the amount that you can save in your retirement plan. The cap is the government's way of saying that they will support retirement savings (through favorable tax treatment), but only up to a point, and no further after that point. The caps are found in Internal Revenue Code section 415, and for this reason the caps are called §415 limits.

If you are in a personal account plan, such as a 401(k) plan, the §415 limit is fairly straightforward. No employee may receive more than $53,000 in contributions (employee plus employer, plus allocated forfeitures, if any) to his account in a plan year. As with everything in retirement plans, there are twists and exceptions that make this simple rule more difficult. An employee may not receive more than 100% of compensation, if less than $53,000, and employees over age 50 who defer to a 401(k) may exceed the limit by an additional $6,000. The numbers are indexed to inflation and increase from time to time.

Notice that the limit is on contributions into the plan. There is no §415 limit cap on the amount of earnings the account may receive. Therefore, there is no cap on how large an account may grow, although it is limited to $53,000 per year plus earnings.

A Defined Benefit (DB) plan is different. The DB plan is designed to allow an employee to receive an income for life following retirement. The §415 limit sets the maximum lifetime income, currently $210,000 per year for an employee who retires at the 'standard' retirement age of 62 to 65. The plan is allowed to accumulate whatever amount is needed to pay this benefit, no matter how large the required contribution may be. This is why a DB plan may allow much larger deductible contributions to a highly paid employee than a 401(k).

Currently, the amount needed to pay a retiring employee in his early 60s a benefit of $210,000 per year is about $2.5 million, based on average life expectancy. The limit phases in over ten years after the plan is put into place, so a person planning to retire at age 62 has to start the plan at age 52 to get his maximum benefit. But it should be obvious that saving $2.5 million over a period of ten years will probably require contributions much larger than $53,000 per year.

What is My Account Balance in My Defined Benefit Plan?

By Harvey Shifrin, JD, CPA

ERISA Attorney

Often we are asked, "What do I have in my pension plan?" or "What is my pension worth?" These are questions that are impossible to answer meaningfully.

Defined Benefit pension plans work completely differently from 401(k) plans. Instead of having an account balance that looks like a savings account, you have an "accrued benefit". The accrued benefit is stated in terms of $X,XXX per month or year for life.

Each year you accrue another piece of your ultimate benefit. The plan sponsor contributes enough money each year so that the plan will have enough money to pay benefits when you retire. Shouldn't that be simple to figure? It would if interest rates stayed the same.

Let me explain. Assume you are 45, expect to retire at 65 and actuaries say you will live to 80. Let's say your pension is $30,000 a year for life. If interest is not a factor, you would need to have $450,000 ($30,000 x 15) at age 65 and it would cost $22,500 each year to have $450,000 by then. Interest is a factor, however. If interest rates are 10% it would cost $3,984 per year to accumulate the $228,182 it would require to fund your pension. At 5% it would cost $9,417 to accumulate the $311,390 needed. These numbers are all over the place.

A pension plan is trying to hit, not a fixed target, but a moving target. That's why the question can't really be answered meaningfully. The real question is "How much money do I get each month/year?'

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