

BENEFIT PLANNING INC.

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4676 ADMIRALTY WAY, SUITE 401
MARINA DEL REY, CALIFORNIA
90292

TELEPHONE: (310) 577-1444
FACSIMILE: (310) 577-1433

Your Qualified Plan:

Updates, News, and Ideas

Increased Limits effective January 1, 2000

January 1 saw the increase in a number of important IRS dollar limitations that could mean increased benefits for you.

Type of Limitation	2000	1999	1998
Elective Deferrals (401(k), 403(b), etc.)	\$10,500	\$10,000	\$10,000
Defined Benefit Plans	135,000	130,000	130,000
Defined Contribution Plans	30,000	30,000	30,000
Annual Compensation Limit	170,000	160,000	160,000
Social Security Wage Base	76,200	72,600	68,400
Highly Compensated 80,000 index	85,000	80,000	80,000

As you review these numbers, you will see that the annual compensation limit increased, as did 401(k) deduction limits.

Often, these increases change optimal plan design. For example, the gap between a money purchase and a profit sharing plan has narrowed. Also, "integrated plans" are less attractive.

"New Comparability", Tiered Allocations Under Scrutiny

Many of our clients optimize their retirement plan using "tiered allocations" in their plan design. These plans typically provide for different levels of contributions to designated allocation groups.

In many cases, the dollar contribution for highly compensated employees is significantly greater than for most non-highly compensated employees.

Now, the IRS is seeking comments on these "new comparability" plans. These plans satisfy testing on the basis of benefits, in the same way as traditional defined benefit plans (known as "cross-testing").

The IRS is concerned that these plans are contrary to the basic purposes of the nondiscrimination rules, even though they meet the mathematical requirements of testing outlined in their own code.

Detractors don't understand that these plan designs significantly increase the number of employees that receive benefits. Many pro-business pension government action groups are on top of this, and so are we.

“GUST” Restatement

You may not have heard that the IRS is requiring that *all* qualified plans be “restated” for law changes made by GATT, USERRA, SBJPA, and TRA '97 (“GUST”). “Full GUST approval” means review of all law changes, including those that took affect after December 31, 1998.

Earlier procedures issued by IRS only allowed for review of pre-1999 law changes.

The deadline for submitting your restated document is 12 months from the approval date of the “favorable determination letter” of your document sponsor (us!). We’ll let you know when that is, and we will keep you posted on what to do and when.

Benefit Planning, Inc.
4676 Admiralty Way #401
Marina del Rey, CA 90292

Compliance: IRS Guidance Provides Flexibility for 401(k) Plan Sponsors

The Internal Revenue Service has given sponsors of new or existing 401(k) plans adopting design-based safe harbors until May 1, 2000, to provide the required notification to employees.

A “safe harbor” 401(k) allows highly compensated employees to defer the maximum without ADP testing (the 401(k) test). A 3% fully vested profit sharing contribution to the employees is required

Importantly, now a sponsor has until the last month of the year to decide whether to use the safe harbor fully vested contribution to pass tests! This greatly increases the chances that a Safe Harbor design is good for your firm.

Towards Better *Electronic* Communication

Did you know you can email us your census data? How about receiving your employee statements on a disk for storage and easy retrieval? Or, uploading your payroll data over the Net?

All these are currently available here at Benefit Planning--just let us know how “paperless” you want to be.

Benefit Planning, Inc. is constantly seeking to optimize our customer communications **You can assist us by giving us your current email address. Better, email us your address to Guy@BenPlanInc.com**

ADDRESS CORRECTION REQUESTED