BENEFIT PLANNING INC.

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Your Qualified Plan:

Updates, News, and Ideas

SPECIAL EDITION: SWEEPING PENSION REFORM BECOMES LAW

In a much anticipated development, on June 7 President Bush signed a broad tax cut that contained dozens of pension provisions. EGTRRA (we're pronouncing it "egg-tra") makes major changes to existing law, provides planning opportunities, and impacts the GUST restatement of qualified plans.

Key Provisions

Beginning in 2002, the Act raises all of the significant dollar limits. For example, maximum considered compensation increases from $170,000 to $200,000. Another important example, the $35,000 contribution limit (just increased from $30,000) increases to $40,000. And the list of increases is quite long.

Top Heavy rules have been substantially revised. Complicated "look back" rules have been repealed, matching contributions count towards the top heavy minimum contribution, and the definition of "key" employee has been limited. The total effect can be quite advantageous to small to medium businesses.

Profit sharing plans can now receive up to 25% of compensation in contributions, thus making Money Purchase Plans of limited use.

401(k) Plans had numerous modifications that have the effect of increasing deductibility and incentives for both Employer and Employee to participate. For example, the $10,500 limit will ramp to $15,000 by 2006.

Finally, IRS user fee waivers and tax credits for employers and employees will be a key incentive.

Although some of the above changes are phased in, most provisions become effective next year. As a result, employers will need to respond quickly to optimize their plans in this new context.

Planning Opportunities

For us at Benefit Planning, the most exciting part of the new law is applying the new law in plan design for our clients. Defined Benefit, Profit Sharing, and 401(k) Plans all present new options and solutions.

Defined Benefit plans can be bigger and better. The maximum benefit increase (from $130,000 to $160,000) coupled with the compensation limit increase and other technical changes all translate into larger deductible contributions and absorption of over-funded plans' assets. Potentially, contributions for older owner-participants could increase by 50%(!).

Profit sharing plans improve by the contribution limit increase to 25% of compensation overall and $40,000 individually. What was often done with a "paired" Money Purchase/Profit Sharing Plans can now be done better (and cheaper) with a Profit Sharing plan alone.

Congress wants small and medium size businesses to install 401(k) Plans. The new rules strongly encourage the use of 401(k) plans. Deductibility has been increased, passing tests has been eased & simplified, and design aspects have been improved that allow a small or medium size company to install a plan where they would not before.

For all these plans there are tax credits for small employers and for some employees. We are in process of preparing materials to assist you in communicating this important provision to your employees.

Impact on GUST

A big question is how EGTRRA will affect the restatement of your plan document required for GUST. While the IRS has consistently held that no extension of the GUST restatement period would be forth-coming, EGTRRA is so sweeping that the IRS has stated that some sort of guidance regarding plan documentation will be coming in the next weeks.

Also, as mentioned, the "user" fees for determination letters has been eliminated. This applies to under 100 employee plans (but not "one man" plans) started after 1992. Since this is effective starting next year, we will be delaying the submission of plans that can take advantage of this cost saving.

In conclusion, not everything on the pension law horizon is good (e.g. the possible new regulations of new comparability, small plan audits below). But, by and large, EGTRRA, joining a string of recent developments, is all good. We look forward to working through it with you.

Reminder – Bond or Audit!

As mentioned in our last newsletter and in our special bulletin sent to some of you, the new "small plan audit" requirements are in effect.

The key date is the first day of your plan year beginning after April 17, 2001.

If you have assets in limited partnerships, real estate, or other non-institutional assets, you need to have a bond for 100% of the value of those "non-qualifying" assets in order to be exempt from the independent CPA audit requirement.

If you have questions, of course, please call.

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