

Indiana State Tax Amnesty

October 21, 2015

From September 15, 2015 through November 16, 2015, the Indiana Department of Revenue will offer Tax Amnesty 2015, a limited-time opportunity for taxpayers to pay past-due taxes without penalty, interest, and collection fees. All tax types managed by the department, including sales tax and individual income tax withholding, are eligible for this program.

**2016 COLA Limits**

<u>LIMITATION</u>	<u>2015</u>	<u>2016</u>	
401(k) and 403(b) Deferrals	\$ 18,000	\$ 18,000	*
457 Deferrals	\$ 18,000	\$ 18,000	*
415 Limits			
Defined Benefit Plans	\$ 210,000	\$ 210,000	**
Defined Contribution Plans	\$ 53,000	\$ 53,000	
Highly Compensated Employee (HCE)	\$ 120,000	\$ 120,000	
Compensation Limit – 401(a)(17)	\$ 265,000	\$ 265,000	
OASDI Taxable Wage Base	\$ 118,500	\$ 118,500	
ESOP Limits			
Maximum balance subject to the 5-year distribution period	\$1,070,000	\$1,070,000	
Amount for addition of one year to the 5-year distribution period	\$ 210,000	\$ 210,000	

* \$6,000 additional catch-up for participants age 50 and over by December 31, 2016, if plan allows.

** Reduced for retirement *prior to* age 62.

Note: In 2016, a Highly Compensated Employee will be any employee who earned over \$120,000 in 2015 (unless a special election was made to only include the top 20% of employees as Highly Compensated Employees) or who was a 5% owner in either 2015 or 2016.

Lump Sum Window Opportunities for 2016 - Defined Benefit Plans

As we explained in our January 23, 2015 newsletter, the IRS has issued generational mortality tables for determining accounting valuations for defined benefit plans. These generational mortality tables increase life expectancy about 2 years for men under age 75 and about 2 years for a woman who is currently age 72, about 3 years for a woman who is currently age 55, and about 4 years at age 35. The longer life expectancies result in higher accounting requirements for the plan. At some point, the generational mortality will be applied to funding requirements and lump sum calculations, resulting in higher requirements for both.

The IRS has recently announced that the change to generational mortality for funding requirements and lump sum calculations will **NOT** occur in 2016. The change will likely occur in 2017, but the IRS will most likely not make a decision on the 2017 table until the fall of 2016. It is difficult to generalize the financial impact of the change to generational mortality. We estimate that it will result in an 8 – 12% increase in liabilities. We further estimate that interest rates for lump sum calculations will have to increase 25-75 basis points to counteract the increase resulting from the change in mortality. Please be aware that the impact of the mortality and interest rates can vary greatly from plan to plan. For further estimates of how these assumptions impact your plan specifically, please contact your actuary.

As a result of the higher liabilities in 2017, clients may want to consider a lump sum window for 2016. A lump sum window offers participants who have terminated employment but not started receiving their monthly benefit the opportunity to receive a cash lump sum of their benefit, which locks in the liability for the employer.

The general outline of steps for adopting a lump sum window are as follows:

1. McCready and Keene (“MCAK”) will determine an estimated value of the lump sum window benefits. Employer will decide if it wants to proceed.
2. MCAK will prepare a Statement of Work for the employer to sign. The Statement of Work will outline the steps and dates of the lump sum window process.
3. Employer will obtain marital status information for all terminated participants, any missing census data, and current addresses.
4. If accrued benefits have not been calculated for terminated participants, that will delay the window and the accrued benefits will need to be calculated.
5. MCAK will amend the plan to provide the window.
6. Employer will notify participants of the upcoming window. (MCAK can assist with drafting this communication.)
7. MCAK will prepare master benefit application packages, including an FAQ.
8. MCAK will calculate the lump sum benefits and annuity options.
9. MCAK will prepare individual benefit application packages. Participants will have a period of time (the window period) to make their decision. The employer can decide the length of the window, but it cannot be less than 30 days.
10. Employer (or MCAK) will mail the benefit application packages to participants and will track responses.
11. Trustee will process payments for participants who elected the lump sum window and will issue 1099’s at the appropriate time.

The process takes approximately 6 months if accrued benefits have been calculated and longer if benefits have not been calculated. To maintain maximum flexibility, you should request that we calculate the benefits for your terminated participants if they have not yet been calculated. If you think a lump sum window might be beneficial for your plan, please contact your MCAK actuary, and he or she can discuss the option in more detail with you.

IRS Announces a Major Change to Employee Plans Determination Letter Program

After months of speculation, the IRS finally announced that starting in 2017, sponsors of individually-designed plans will no longer submit plans to the IRS every five years to obtain a new favorable determination letter. Cycle A plans (for the period February 1, 2016 to January 31, 2017) will be the last round that is available. Going forward, only plans that have never before received a determination letter and terminating plans will be accepted. In addition, a plan sponsor will be permitted to submit a determination letter application in certain other circumstances which will be announced at a later date.

Plan sponsors will still be expected to keep their plans up to date. The IRS will take the necessary steps to assist with compliance, such as providing model amendments. It is also possible that the IRS will open the determination letter process on a selective basis for discrete issues and law changes.

The IRS has **not** announced any change to the 6-year opinion and advisory letter remedial amendment cycle for pre-approved master, prototype and volume submitter retirement plans.

Things We Need to Know

Last month the Pension Benefit Guaranty Corporation issued final regulations on reportable events. “Reportable events” center on events that may indicate poor funding status or a possible plan termination. Most notably, the changes expand the waiver provisions, including waivers for financially sound businesses.

To provide accurate administrative services to our defined contribution and defined benefit clients and to monitor the events that *may* need to be reported to the Pension Benefit Guaranty Corporation for defined benefit plans, please let us know as soon as any of the following occur:

- Reduction of more than 20% of active participants.
- Purchase or sale of entities in your controlled group (i.e., a group of entities that are owned by the same parent company or owned by a group of 5 or fewer individuals) or affiliated service group (a group of entities that have an ownership connection and provide services to each other or together provide services to third parties).
- Closing of a plant or facility.
- Change of the plan sponsor’s EIN.
- Failure to make required contributions to a defined benefit plan (including quarterly contributions).
- Liquidation of your company.
- Filing for bankruptcy.
- Inability to pay benefits when due.

These events are noteworthy, but are not an exhaustive list of events that could affect the administration of your plan.

Required Minimum Distributions

Generally, retirement plan participants must take their first required minimum distribution (RMD) by the later of April 1 of the year following the calendar year they reach 70½ or the year in which they retire. Subsequent RMDs must be taken by December 31 of each year thereafter. However, if an individual is a more than 5 percent owner of the business sponsoring the retirement plan or is treated as a more than 5 percent owner under the ownership attribution rules of Internal Revenue Code section 318, then RMDs must begin by April 1 of the year following the year he or she reaches 70½, regardless of whether he or she is retired, and then by December 31 of each year thereafter. Please review your defined contribution plan document as it may dictate that all RMDs must begin by April 1 of the year following the year the participant reaches age 70½ without considering employment or ownership status. Most of the defined benefit plans that we administer commence RMDs by April 1 of the year following the year the participant reaches age 70½ for all participants.

Important Deadlines

- **9 months after plan year-end:** Deadline to distribute the 2014 Summary Annual Report (SAR) unless the Form 5500 filing was extended.
- **9 ½ months after plan year-end:** Deadline to correct a 2014 coverage test failure.
- **9 ½ months after plan year-end:** 2014 Form 5500, Form 5500-SF and Form 8955-SSA filing deadline if the deadline was extended by Form 5558.

Not all deadlines are based on the plan year. Examples of deadlines not based on the plan year include return of excess deferrals (April 15), required minimum distributions (April 1) and Form 5330 filing for prohibited transactions (last day of the 7th month after the end of the tax year of the employer or other person who must file the Form 5330). Under Internal Revenue Code section 7503, when a deadline falls on a weekend (i.e., Saturday or Sunday) or a legal holiday, the performance of such acts shall be considered timely if completed the next business day. However, corrective distributions should be processed the day before the weekend or legal holiday.

Safe Harbor 401(k) Plans

Safe harbor 401(k) plans allow an employer to provide a retirement plan to employees while also:

- Ending the need for certain year-end compliance testing
- Eliminating many corrective refunds
- Allowing the company owners and highly compensated employees to defer the maximum dollar limit
- Providing for additional employer contributions

If your 401(k) plan is converting to a safe harbor plan, you need to do two things before the beginning of the new plan year:

1. Distribute a safe harbor notice 30-90 days prior to the beginning of the plan year. (Note: December 1, 2015, is the last day to give the safe harbor notice for a plan that begins on January 1, 2016.)
2. Amend your 401(k) plan to include safe harbor 401(k) provisions. Your plan manager can guide you through the process.

Important: In order to ensure timely preparation of the safe harbor notice, you must submit your request to convert your plan to a safe harbor plan no later than November 16, 2015.

Executing your Restated Document and Distributing your Summary Plan Description - Defined Contribution Plans

Similar to the process for the Plan Information Questionnaire, if you use OneAmerica document preparation services and currently have a 401(a) pre-approved plan (such as our volume submitter document), you will receive a series of emails related to your restated documents including:

- Notification that your restatement has been published and is ready for you to complete and electronically sign
- Restatement follow-up emails (if necessary)
- E-Sign notification verifying that all required signatures have been obtained for documents that are required to be signed electronically
- E-Sign follow up emails (if necessary)

Please review all documents for accuracy. You must electronically sign the restated adoption agreement first or sign all documents (e.g., participating employer agreements, amendments, etc.) on the same day. In addition, please provide a copy of the updated summary plan description (SPD) to each active participant in the plan, each retired participant receiving benefits from the plan, each terminated participant entitled to a deferred vested benefit and each beneficiary receiving benefits from the plan. Best practice is to distribute the SPD within 90 days of the date the adoption agreement is signed. Each new participant who enrolls after the initial distribution of the SPD should receive a copy along with any summary of material modifications within 90 days after entering the plan.

If you have questions or would like additional information about the items presented in this newsletter, please call your McCready and Keene representative.

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