Retirement Plan Solutions for High New Worth Business Owners

BILL SCHORIES, CIMA®, AIF®, CRPS®
VICE PRESIDENT, SENIOR RETIREMENT CONSULTANT
MAY 17, 2017

Not FDIC Insured	May Lose Value	Not Bank Guaranteed

Retirement Solutions

- **State of the Market:** Trends to Capitalize on
- **Cross-Tested Plans:** Age Weighted, New Comparability
- **Single Ks, SEPs, SIMPLE IRAs & Safe Harbor 401(k)s**
- **Defined Benefit Plans:** Traditional, Cash Balance
- **Roth 401(k)/403(b) & Roth IRA**

2

Common Reasons Small Businesses Hesitate to Establish a Plan

- Reluctance to make required employer contributions
- Employee turnover: Lack of vesting schedules cause too much money to go to short-term employees
- Costs too much to set up and administer
- Too many government regulations/too much paperwork
- Benefits to owner are too small

3

How to Address these Concerns

- Think beyond the 401(k)
- Find the right plan design to meet your company's specific needs
- The right plan design can benefit you, your business and your employees

OPPENHEIMERFUNDS
THE RIGHT WAY TO INVEST

4

Providing Solutions

Concern	Solution
Reluctance to make required contributions	✓ Flexible contributions
Employee turnover	✓ Exclude employees where possible
Costs too much to set up and administer	✓ Low cost relative to contributions, plus incentives for small businesses
Too many government regulations	✓ Government regulations work for—not against—the business owner
Benefits to owner are too small	✓ Maximize contributions for owner(s)

OPPENHEIMERFUNDS
THE RIGHT WAY TO INVEST

5

CLIENTCONNECT

- The Defined Contribution Market
- Business Building and Planning
- Data Collection
- Information Assessment
- Plan Presentation
- Implementation
- Client Servicing
- Partnering with OppenheimerFunds

For Broker/ Dealer Use Only

Plan Types

- Single K
- SEP IRA
- SIMPLE IRA
- 401(k)/Profit Sharing
- Safe Harbor 401(k)
- Cross Tested Plans*
- Non Qualified Deferred Comp
- Defined Benefit

* A method of allocating employer contributions in a profit sharing plan. Not a plan type.

OppenheimerFunds
The Right Way to Invest

Plan Limits

Overview
Scandals
404(c)
Fees
Company Stock
Blackouts
Advice
IPS
Resources

For Institutional Use Only

2016	2017
• $18,000 (402g)	• $18,000 (402g)
• $6,000 Catch up	• $6,000 Catch up
• $53,000 (415)	• $54,000 (415)
• $265,000 (Compensation)	• $270,000 (Compensation)
• $120,000 HCE	• $120,000 HCE
• $210,000 DB Max	• $215,000 DB Max
• $170,000 (Key Employee)	• $170,000 (Key Employee)
• $12,500 SIMPLE	• $12,500 SIMPLE
• $3,000 SIMPLE Catch up	• $3,000 SIMPLE Catch up
• $118,500 Soc Sec Base	• $127,200 Soc Sec Base

OppenheimerFunds The Right Way to Invest

Single K & SEPs

- SEPs allow up to 25% of pay or $54,000.
- SEPs are Employer money only.
- Single K allow Employer Contributions up to 25% of pay.
- Plus Employee contributions of $18,000.
- Single K has Catch Up contributions of $6,000.
- Single K beneficial for those making under $216k.
- Loans.
- Owner making $100k can do $43,000 in Single K vs $25,000 in SEP.

RE0000.563.0901
September 30, 2001

OppenheimerFunds The Right Way to Invest

Safe Harbor vs SIMPLE

Safe Harbor 401k	SIMPLE IRAs
• $18,000 Limit	•$12,500 Limit
• Safe Harbor Match satisfies all tests	•No reporting or Testing requirements
• Ability to borrow	•No Loans
• Higher Catch Up $6,000	•$3,000 Catch Up
• Higher Employer Contributions	•Some Flexibility in Employer contributions
• Roth option	•No Roth
• Fees	•No Fees

RE0000.563.0901
September 30, 2001

OppenheimerFunds The Right Way to Invest

Traditional Safe Harbor 401(k)

- Introduced in 1999
- Solution for 401(k) plans with testing problems:
  - Low employee participation
  - Owners and Highly Compensated Employees can't contribute meaningful amounts
  - Top heavy contributions required
  - (Taxable) return of deferrals

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

10

Safe Harbor Requirements

- Contribution Requirements
  - Matching contribution **or**
  - Non-elective contribution
  - 100% immediate vesting
- Notice to Eligible Employees
- Amend Plan

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

11

Contribution Requirements

Matching Contribution

  - Dollar-for-dollar up to 3% of employee compensation, plus
  - 50 cents on the dollar for contributions between 3% and 5% of employee compensation
  - Example: $25,000 compensation, 5% deferral
  - Matching contribution = $750 + $250 = $1,000
- Enhanced safe-harbor matching formulas also permitted
- Matching contributions may be discontinued mid-year

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

12

Contribution Requirements

Nonelective Contribution

- 3% of compensation for each eligible employee, even if they do not participate in salary deferrals

Problems Solved

- No nondiscrimination testing required
  - Automatically satisfies ADP and ACP tests
- Allows HCEs to contribute maximum, regardless of participation by NHCEs
- Prevents taxable return of contributions to HCEs
- No top-heavy requirement for Safe Harbor plans that make only Safe Harbor contributions and no further employer contributions

Retirement Solutions

Age-Weighted Profit Sharing	**New Comparability Profit Sharing**
Super Comp	**Defined Benefit Plans:** Traditional Cash Balance

AGE-WEIGHTED PLANS

16

Age-Weighted Plans

- IRC §401(a)(4): Contributions or benefits under the plan must not discriminate in favor of highly compensated employees
- Discrimination testing compares the contributions allocated each year to the accounts of participants

17

Cross-Testing

1993: Treasury Reg. 1.401(a)(4)

- Testing based on projected benefits at retirement, rather than on the basis of the allocations of contributions to the plan
- Profit-sharing plan is no longer required to contribute the same percentage of pay for all participants

18

Traditional vs. Age-Weighted

Traditional Profit Sharing Plan
- Allocations based on compensation only
- No reference to age, years to retirement or the present value of future benefits

Age-Weighted Profit Sharing Plan
- Contributions allocated based on reasonably expected benefits at retirement age, instead of compensation alone

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

19

Key Factors

Factors for determining allocation:
- Current age
- Retirement age, usually age 62-65
- Years to retirement
- Present value of dollars at retirement based on IRS standard interest rate
- Current compensation

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

20

Time Value of Money

Nondiscrimination testing recognizes the time value of money
- A dollar invested by younger employees will be worth more at normal retirement age than a dollar similarly invested by an older employee
- Plans designed to provide benefits that will be equally valuable at retirement age must provide a higher contribution for an older worker than for a younger worker

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

21

May Work Best for:

Owners and principals who:
- Seek contribution flexibility
- Want a larger portion of plan contributions for themselves
- Are older than other employees and earning more compensation

OPPENHEIMERFUNDS
THE RIGHT WAY TO INVEST

22

Considerations

- Higher administration costs, but...
- Balance higher cost with value of larger contributions
  - Tax deductible employer contributions
  - Tax credits may be available to offset start-up costs

OPPENHEIMERFUNDS
THE RIGHT WAY TO INVEST

23

NEW COMPARABILITY PLANS

OPPENHEIMERFUNDS
THE RIGHT WAY TO INVEST

24

New Comparability

- Takes cross-testing a step further
- Uses specific employee classifications—rather than strictly age—to design contribution levels for participants
- Participants are divided into two or more classes
- Classes may be based on any reasonable criteria: ownership, job tenure, age

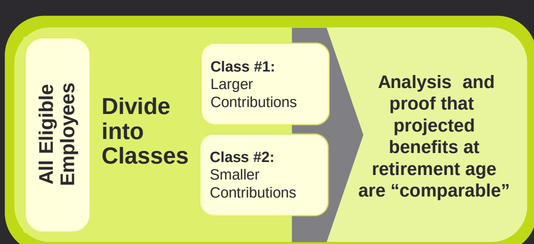
25

Compelling Story

- Larger contributions are made for one class than for another
- Usually substantial contributions are made for the favored group, with lower contributions for the other employees

26

How They Work



27

Two Key Factors

1. Equivalent Benefit Accrual Rates (EBARs)
2. Comparability of benefits
   - Use cross-testing to
     - Compare apples and oranges
     - Turn apples (contribution allocations) into oranges (EBARs)
     - Make sure both classes of employees get a comparable number of oranges
   - Complex!

Converting Allocation Apples into EBAR Oranges

- Each participant's allocation is accumulated with interest to retirement age
- The accumulated amount is then divided by an annuity rate to produce an equivalent monthly retirement benefit
- That amount is then annualized and divided by the participant's annual compensation to arrive at the participant's annual Equivalent Benefit Accrual Rate

How About Them Apples?

- Amount of contribution allocation is now all about EBARs
- Instead, EBAR oranges are compared to determine if plan is discriminatory

IRS Regulations for New Comparability Plans

Age-weighted and service-based cross-tested plans OK

- Minimum gateways for NHCEs and/or relative contribution rates for HCEs and NHCEs
- The lowest NHCE contribution rate must be at least:
  - 1/3 of the highest HCE contribution rate, or 5% of compensation
- Complex alternative allocation methods

31

MAKING IT WORK: A CASE STUDY

32

Thriving Professional Practice

	Age	Salary
Owners:		
Doctor 1	54	$270,000
Doctor 2	45	$270,000
Staff:		
Nurse 1	41	$50,000
Nurse 2	30	$35,500
Assistant 1	47	$29,000
Assistant 2	27	$23,000
Assistant 3	24	$23,000
Receptionist	25	$22,000

The individuals portrayed in these examples are fictional. This material does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed and a tax or financial advisor should be consulted.

33

Owners' Goals

- Maximize retirement benefits for the two owners
- Minimize required contributions for staff
- Maintain contribution flexibility

34

Traditional Profit-Sharing Solution

	Age	Salary	20% Profit Sharing	
Doctor 1	54	$270,000	$54,000	75% of total 20% of income
Doctor 2	45	$270,000	$54,000	
Total		**$540,000**	**108,000**	
Nurse 1	41	$50,000	$10,000	25% of total 20% of income
Nurse 2	30	$35,500	$7,100	
Assistant 1	47	$29,000	$5,800	
Assistant 2	27	$23,000	$4,600	
Assistant 3	24	$23,000	$4,600	
Receptionist	25	$22,000	$4,400	
Total		**$182,500**	**$36,500**	
Grand Total		**$722,500**	**$144,500**	

The individuals portrayed in these examples are fictional. This material does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed and a tax or financial advisor should be consulted. Hypothetical reflects 2014 limitations. Contribution calculations provided by Verisight,Inc. Verisight,Inc. is not affiliated with Oppenheimer Funds Distributor Inc.

35

What About Social Security Integration?

			Contribution		
	Age	Salary	20% Profit Sharing	Integrated	
Doctor 1	54	$270,000	$54,000	$54,000	**$108,000** 78% of total 20% of income
Doctor 2	45	$270,000	$54,000	$54,000	
Total		**$540,000**	**$108,000**	**$108,000**	
Nurse 1	41	$50,000	$10,000	$8,421	**$30,736** 22% of total 17% of income
Nurse 2	30	$35,500	$7,100	$5,979	
Assistant 1	47	$29,000	$5,800	$4,884	
Assistant 2	27	$23,000	$4,600	$3,874	
Assistant 3	24	$23,000	$4,600	$3,874	
Receptionist	25	$22,000	$4,400	$3,704	
Total		**$182,500**	**$36,500**	**$30,736**	
Grand Total		**$722,500**	**$144,500**	**$138,736**	

The individuals portrayed in these examples are fictional. This material does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed and a tax or financial advisor should be consulted. Hypothetical reflects 2014 limitations. Contribution calculations provided by Verisight,Inc. Verisight,Inc. is not affiliated with Oppenheimer Funds Distributor Inc.

36

Age-Weighted Solution

	Age	Salary	Contribution: 20% Profit Sharing	Contribution: Integrated	Contribution: Age Weighted
Doctor 1	54	$270,000	$54,000	$54,000	$54,000
Doctor 2	45	$270,000	$54,000	$54,000	$25,994
Total		**$540,000**	**$108,000**	**$108,000**	**$79,994**
Nurse 1	41	$50,000	$10,000	$8,421	$3,863
Nurse 2	30	$35,500	$7,100	$5,979	$1,102
Assistant 1	47	$29,000	$5,800	$4,884	$3,287
Assistant 2	27	$23,000	$4,600	$3,874	$534
Assistant 3	24	$23,000	$4,600	$3,874	$412
Receptionist	25	$22,000	$4,400	$3,704	$427
Total		**$182,500**	**$36,500**	**$30,736**	**$9,625**
Grand Total		**$722,500**	**$144,500**	**$138,736**	**$89,619**

$79,994
89% of total

$9,625
11% of total

The individuals portrayed in these examples are fictional. This material does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed and a tax or financial advisor should be consulted. Hypothetical reflects 2014 limitations. Contribution calculations provided by Verisight,Inc. Verisight,Inc. is not affiliated with Oppenheimer Funds Distributor Inc.

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

37

New Comparability

	Age	Salary	Contribution: 20% Profit Sharing	Contribution: Integrated	Contribution: Age Weighted	Contribution: New Comp
Doctor 1	54	$270,000	$54,000	$54,000	$54,000	$54,000
Doctor 2	45	$270,000	$54,000	$54,000	$25,994	$54,000
Total		**$540,000**	**$108,000**	**$108,000**	**$79,994**	**$108,000**
Nurse 1	41	$50,000	$10,000	$8,421	$3,863	$2,500
Nurse 2	30	$35,500	$7,100	$5,979	$1,102	$1,775
Assistant 1	47	$29,000	$5,800	$4,884	$3,287	$1,450
Assistant 2	27	$23,000	$4,600	$3,874	$534	$1,150
Assistant 3	24	$23,000	$4,600	$3,874	$412	$1,150
Receptionist	25	$22,000	$4,400	$3,704	$427	$1,100
Total		**$182,500**	**$36,500**	**$30,736**	**$9,625**	**$9,125**
Grand Total		**$722,500**	**$144,500**	**$138,736**	**$89,619**	**$117,125**

$108,000
92% of total
20% of income

$9,125
8% of total
5% of income

The individuals portrayed in these examples are fictional. This material does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed and a tax or financial advisor should be consulted. Hypothetical reflects 2014 limitations. Contribution calculations provided by Verisight,Inc. Verisight,Inc. is not affiliated with Oppenheimer Funds Distributor Inc.

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

38

Goals Accomplished?

Maximize retirement benefits for the two doctors
- Owners get maximum permissible contribution
- Owners get 92% of total plan contributions

Minimize contributions required for staff
- Staff receives 8% of total plan contributions

Maintain contribution flexibility
- Annual funding not required

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

39

Works Best for:

- Plans that have consistently failed discrimination testing
- Plans making contributions of 5% of compensation or more
- Employers seeking to max out contributions for owners and HCEs
- Employers who want the biggest possible share of the plan contributions allocated to the accounts of the owners/principals

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

40

DEFINED BENEFIT PLANS: TRADITIONAL AND CASH BALANCE

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

41

Back in the Spotlight for Small Businesses

Popularity declined in 1980s due to unfavorable tax law changes

- Pendulum swings the other way
  - January 1, 2000: Repeal of IRC §415(e)
    - Renewed popularity and new opportunity
  - 2001: EGTRRA:
    - Increased benefits
    - Relief from funding limits
  - 2006: PPA
    - Revised DB/DC combined deduction limit under Code Section 404(a)(7)(A)
    - Cash balance given green light

OPPENHEIMERFUNDS THE RIGHT WAY TO INVEST

42

Getting Results for a Small Medical Practice

Traditional Defined Benefit

Benefit Formula:

80% of comp

Max. Comp: $270K

Assumptions:

NRA: 62

430 segment rates for deduction purposes

Mortality: RP 2016 Optional Combined Rate

	Age	Annual Pay	Monthly Pension at Ret. Age	Avg. Ann Cost	% of Total Cost
Doctor 1	54	$270,000	$14,000	$195,901	66.6%
Doctor 2	45	$270,000	$17,916	$74,007	25.2%
Total		**$540,000**		**$269,908**	**91.8%**
Nurse 1	41	$50,000	$3,333	$8,453	2.9%
Nurse 2	30	$35,500	$2,367	$2,397	.8%
Assistant 1	47	$29,000	$1,933	$10,295	3.5%
Assistant 2	27	$23,000	$1,533	$1,224	0.4%
Assistant 3	24	$23,000	$1,533	$971	0.3%
Receptionist	25	$22,000	$1,467	$1,003	0.3%
Total		**$182,500**		**$24,343**	**8.2%**
Grand Total		**$722,500**		**$294,251**	**100.00%**

The individuals portrayed in these examples are fictional. This material does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed and a tax or financial advisor should be consulted. Not intended to depict investment in any Oppenheimer fund. Expected results for 2014. Costs vary with investment performance, compensation and IRS limits. Contribution calculations provided by Verisight,Inc. Verisight,Inc. is not affiliated with OppenheimerFunds Distributor Inc.

43

Getting Results for a Small Medical Practice

Cash Balance Methodology

Cash Benefit Allocation Formula:

38% compensation for doctor group, 14% for employees

Max. Comp: $270k

Assumptions:

NRA: 62

	Ret Age	Annual Pay	Cash Balance Contribution Credits	% of Total Cost
Doctor 1	62	$270,000	$102,600	44.4%
Doctor 2	62	$270,000	$102,600	44.4%
			$205,200	**88.8%**
Nurse 1	62	$50,000	$7,000	3.0%
Nurse 2	62	$35,500	$4,970	2.3%
Assistant 1	62	$29,000	$4,060	1.9%
Assistant 2	62	$23,000	$3,220	1.5%
Assistant 3	62	$23,000	$3,220	1.5%
Receptionist	62	$22,000	$3,080	1.4%
			$25,550	**11.2%**
Total Contribution:			**$230,750**	**100.00%**

The individuals portrayed in these examples are fictional. This material does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed and a tax or financial advisor should be consulted. Not intended to depict investment in any Oppenheimer fund. Expected results for 2014. Costs vary with investment performance, compensation and IRS limits. Contribution calculations provided by Verisight,Inc. Verisight,Inc. is not affiliated with OppenheimerFunds Distributor Inc.

44

Potentially Best Suited for:

- Small, high revenue companies and professional groups.
- Older business owners who want to build retirement assets in a relatively short time frame.
- Desire to defer more than $54,000 defined contribution limit (2017).

45

Roth 401(k) and Roth 403(b)

Quick Review: Roth IRA

Eligibility	Earned income	
	MAGI	$133,000 Single 2017 $196,000 (2017)
	No age restrictions	
	No RMDs	
After-tax Contributions	2017	$5,500 + $1,000 catch-up
Tax-free Distributions	5 years *and*	
	59½, first home, disability, death	

Summary

Next Steps:

- Talk to your financial advisor to determine what plan design best fits your needs
- Visit oppenheimerfunds.com for more information on our solutions

48

Q&A

49

Disclosures

Shares of Oppenheimer funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including the possible loss of the principal amount invested.

This material is provided for general and educational purposes only, and is not intended to provide legal, tax or investment advice, or for use to avoid penalties that may be imposed under U.S. federal tax laws. Contact your attorney or other advisor regarding your specific legal, investment or tax situation.

Before investing in any of the Oppenheimer funds, investors should carefully consider a fund's investment objectives, risks, charges and expenses. Fund prospectuses and summary prospectuses contain this and other information about the funds, and may be obtained by asking your financial advisor, visiting oppenheimerfunds.com or calling 1.800.CALL OPP (225.5677). Read prospectuses and summary prospectuses carefully before investing.

Oppenheimer funds are distributed by OppenheimerFunds Distributor, Inc.
Two World Financial Center, 225 Liberty Street, New York, NY 10281-1008

RE2000.339.1113 November 16, 2013

50