

FOLEY BENEFITS GROUP, LLC

Tax Information 2007-2008

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A WORD FROM DAVID FOLEY



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WHAT'S NEW

The government has released plan limits for 2008. They are as follows:

- **Retirement Plan Limits Set for 2008:**

| | <u>2008</u> | <u>2007</u> |
|--|-------------|-------------|
| Salary Deferrals (401k) Maximum (Note: No change for 2008) | 15,500 | 15,500 |
| Catch-up Deferrals (Over Age 50) (Note: No change for 2008) | 5,000 | 5,000 |
| Maximum Defined Contribution Deposit (All Sources) | 46,000 | 45,000 |
| Limit on Annual Compensation For Plan Calculations | 230,000 | 225,000 |
| Highly Compensated Employee | 105,000 | 100,000 |

- **Automatic Enrollment (401k)**

Automatic enrollment has received a lot of press exposure in the last 6 months. Automatic enrollment allows you to put new employees into the plan after the eligibility period. Most information that I have read states that the biggest problem in getting new employees into the plan is "inertia". In other words, if they get started, they stay in but making the decision to start is a problem.

How Does It Work?

- 1) Employees are automatically enrolled for a stated percentage of salary deferral after meeting the eligibility. The amount of deferral is usually set at the matching limit (4 or 6%).
- 2) Employees can opt out in 90 days and be refunded their deferrals without tax penalty.
- 3) The fund the employee invests in is a blended account of stocks and bonds managed towards the employees expected retirement date (eg. 2030).

- **Plan Limits for 2008**

- **Automatic Enrollment**

- **Safe Harbor 401(k)**

- **Funding Alternatives for 401(k)**

- **Profit Sharing**

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serve you.....**

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Automatic enrollment has increased plan participation at big companies. It will do the same for your company.

The benefit to you and your company is that the higher the participation by the employees, the higher the maximum contribution is for the highly compensated employees and owners.

- **Safe Harbor 401(k) (Revisited and New):**

Up until January 1, 2008 there were two funding alternatives for a safe harbor plan. Starting January 1, 2008 there is a new Safe Harbor 401(k) formula that combines an employer match with automatic enrollment. Safe harbor eliminates the two tests that limit how much an owner or highly compensated employee can defer.

In a standard 401k, owner employees and highly compensated employees can only deposit 2% more than the average deferral percentage (ADP/ACP test) of the non-highly compensated employees. If participation is poor, this severely restricts the benefit to the owners and highly compensated employees.

A standard plan might also run into being top heavy (top heavy test). If owners and highly compensated employees have 60% or more of the total assets in the plan (top heavy), the government requires a minimum deposit for all employees of up to 3% of salary by the company.

Safe Harbor 401(k) eliminates both the ADP/ACP test and top heavy test.

Safe Harbor 401(k) allows all owners and highly compensated employees to put the maximum into their account without restriction.

- **Funding Alternatives for Safe Harbor 401(k):**

Current:

- 1) Non-Elective – Employer puts in 3% of eligible employees salary.
- 2) Matching - \$1.00 per \$1.00 match to 4% of salary.

New: (Safe Harbor additional option after January 1, 2008)

- 3) Automatic Enrollment Safe Harbor –
 - Matching \$1.00/\$1.00 to 1% and \$.50/\$1.00 for the next 5% (maximum employer cost is 3.5%)
 - Automatic Enrollment

This new Safe Harbor formula will appeal to owners that want to improve plan participation while also avoiding the discrimination (ADP/ACP) and top heavy tests.

- **Profit Sharing (After Year End)**

If your company has had a great year, you may wish to reduce income tax by making an additional year end profit sharing plan deposit. This deposit does not have to be made until your company's tax filing date (plus extensions). Where else can you get a current year deduction without spending the money until next September?

There are ways to weight this company retirement plan deposit toward your most valuable employees.

-----**Summary**-----

1. Increase your plan participation by adding automatic enrollment.
2. Consider safe harbor to allow owners and highly compensated employees to maximize their salary deferrals without restriction.
3. If your company has had a great year, consider an after year end profit sharing deposit (with a current tax deduction).

Call me personally to discuss these important changes and ideas.

From us at Foley Benefits Group, have a Happy Holiday Season and a prosperous 2008.

Thank you for your business!

Dave Foley