Tax Bill

A significant change in the tax law was passed in late December. It is too early to assess the long term impact of these changes. Although the core structure of the 401(k) and Defined Benefit/Cash Balance plan rules has not changed, that doesn't mean that there won't be any implications.

As details emerge, we will inform you of any changes that may impact your plan. Some accountants are recommending that clients increase 2017 deductions. Because 2017 tax year contributions to retirement plans can be made in 2018, prior to the 2017 tax deadline, this is something to discuss with your CPA.

MEPs and Other Bundled Low-cost 401(k) Providers

We have heard from some clients that promoters of Multiple Employer Plans (MEPs) have approached them about saving money on their 401(k) plan. The MEPs are difficult to distinguish from the payroll provider bundled plans that are also in the marketplace. A MEP is essentially a single plan that covers multiple employers from similar fields (ie: car dealers). The core idea is that bundling employers into a single plan saves investment and administrative fees.

We recognize that it can be difficult for both clients and advisors to fully appreciate the difference between what a full-service administrator like Limestone can provide and what you will get with a volume provider like a MEP or payroll company. Ultimately, it is up to us to demonstrate our service and competence, but because our business involves complex tax matters that distinction can be difficult to see.

Even some investment professionals often can't tell the difference. An advisor who is a promoter of MEPs tried to move a small professional firm client of ours to his MEP only to find that the third-party administrator lacked the plan design capabilities of Limestone. The move would have cost the client over $20,000 in additional employer contributions to staff!

Here are some important points regarding MEPs:

- Often the motivation of the MEP promoter is not the best interest of the client, but the best interest of the promoter. Promoters are under pressure from the investment company to move assets onto the MEP.
- The "one bad apple" rule is still part of the law. This rule states that if one of the adopting employers in your MEP doesn't follow the rules, then the entire MEP can be disqualified by IRS.
- Moving to a MEP or payroll provider bundle means you can't get the "best of best." You can't leave your administrator, advisor or investment provider without leaving the entire vehicle.
- Usually, the cost savings for administration are small. The larger savings are in the investment provider fees. In addition, many MEPs require a CPA audit fee and membership to a professional society that reduces savings. There are many independent low cost investment recordkeepers as alternatives, so a MEP is not needed to achieve cost savings.

Ultimately, decisions regarding service providers (or anything else for that matter) should be made on the basis of value, not cost. In fairness, there are some services provided by these plans that have value, such as payroll integration and limited fiduciary services. Most unbundled full service recordkeepers also have these capabilities. If you are interested in speaking with us about how Limestone might be able to help in this area, please contact us.

Cash Balance and Defined Benefit Plan Documents

The IRS requires that plan documents be periodically re-drafted to incorporate tax law and regulation changes that occur every year. These periodic updates are referred to as "restatements" and they generally occur every 6 years. It is anticipated that 2018 will be the start of the next restatement period for all Cash Balance and Defined Benefit plan documents. We will deliver more news on this project as it develops. We just wanted to mention this in advance as this work is outside of the normal administration that you typically receive so there will be a fee for preparation of your updated document.

Electronic Communications

All of our new plan documents are now emailed in pdf form and our annual reports are typically emailed via secure portal. We have begun using Docusign for electronic signatures for plan documents and amendments.

Please make sure that we have a good email address for you. It is also important for us to know whether that email can receive confidential information or not. We will normally assume that an email address with a person's name attached to it is private.

We saw some very sophisticated phishing scams and malware attacks this year. If you send us an email with a link or an attachment that we were not expecting, we may not open it without checking first. Please include enough specific detail in the email that we can determine that it is legitimate.

We also encourage you to send us confidential information using our Secure Client Center (Sharefile) that is accessible on each page of our website. Our staff emails also include a link for you to access Sharefile and upload files to us securely.

Compensation and Census Data

We can't stress enough the importance of complete and accurate census data. Incorrect dates of hire, missing dates of termination, incorrect dates of birth or hours worked can make the difference between someone being included in your plan or not. It can also have a major impact on the employer contribution numbers that we calculate for your plan. Please make sure that this data is correct and complete.

Partners, sole-proprietors, and LLC members taxed as partners have very complicated earned income calculations for retirement plan purposes. Please understand that the time frame for work on these types of entities will be longer and will likely require input from your accountant.

Annual Limitations Changes for 2018

There were some significant cost of living adjustments this year. The 401(k) contribution limit has increased to $18,500. The maximum compensation is now $275,000, and the Annual Allocation maximum is up to $55,000.

Annual Dollar Limits	**2017**	**2018**
Maximum Compensation for Qualified Plans	$270,000	$275,000
401(k) and 403(b) Salary Deferrals	$18,000	$18,500
Catch Up Contributions (age 50 and older)	$6,000	$6,000
SIMPLE Contributions	$12,500	$12,500
Highly Compensated Employee Status	$120,000	$120,000
Annual Benefit (section 415) - Defined Benefit	$215,000	$220,000
Annual Allocation (section 415) - Defined Contribution	$54,000	$55,000
Key Employee Determination Compensation	$175,000	$175,000
Taxable Wage Base	$127,200	$128,400