

# Retirement Resources Auburn Hills, Michigan

## Qualified Plan Update: Limits, Distributions, Roll-overs; and Recharacterizations

Wednesday, April 26th, 2017 / 10:00am to 11:00am

# Plan Update for Retirement Resources by CCA

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Walt has assisted businesses, their owners, high net worth individuals and their families with qualified and non-qualified deferred compensation planning for over 35 years. Walt also provides comprehensive estate, gift, and income tax planning and tax return compliance services to a wide range of businesses and individuals.

# Plan Update for Retirement Resources by CCA

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  - Qualified vs. Nonqualified plans
  - Plan Contribution and Earnings Limits
  - Qualified Plan Distribution Requirements
  - Roll-overs
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# Qualified vs. Nonqualified

# Qualified vs. Nonqualified

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## Nonqualified

- Supplemental Employee Retirement Plans (SERPS)
- Rabbit Trusts
- Generally subject to IRC Section 409A
- Not taxable to recipient, not deductible by employer

# Qualified vs. Nonqualified

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## Qualified

- Different Qualified Plans
  - Defined Benefit
    - The contribution amount is a variable of the amount required to meet a defined benefit obligation
    - Required Funding Obligations
  - Defined Contribution
    - No set contribution or target, the contribution is an investment subject to market conditions
    - Elective Deferrals

# Defined Contribution Plans

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- 401(k) plans
  - Elective Employee Deferrals
  - Employer Matches
  
- 403(a) Annuities
  - Fixed rate
  - Variable rate
  
- 457 – Church and Government Plans
  - Similar to 401(k) technically NOT a qualified plan

# Defined Contribution Plans cont.

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- IRAs
  - Personal contributions
  - Rollovers
- Roth
- Simplified Employee Plans (SEPs)
- Others
  - Keogh
  - Health Savings Accounts



# Defined Contribution Plans cont.

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- IRAs
  - Personal contributions
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- Roth
- Simplified Employee Plans (SEPs)
- Others
  - Keogh
  - Health Savings Accounts

# Contribution / Earning Limits

# Contribution Earnings and Limits

Type of Plan	2017	2016
<b>Elective Deferrals (401(k) and 403(b); not including adjustments and catchups</b>	\$18,000	\$18,000
<b>457(b)(2) and 457(c) (1) Limits (not including catchups)</b>	\$18,000	\$18,000
<b>Section 414(v) Catch Up Deferrals to 401(k), 403(b), 457(b), or SARSEP Plans</b>	\$6,000	\$6,000
<b>Defined Benefit Plans</b>	\$215,000	\$210,000
<b>Defined Contribution Plans (annual additions limit)</b>	\$54,000	\$53,000
<b>Annual Compensation Limit</b>	\$270,000	\$265,000
<b>Individual Retirement Accounts ("IRAs"), for individuals 49 and below</b>	\$5,500	\$5,500
<b>Individual Retirement Accounts ("IRAs"), for individuals 50 and above</b>	\$6,500	\$6,500
<b>SIMPLE Retirement Accounts</b>	\$12,500	\$12,500
<b>Health Savings Accounts (HSAs)</b>		
• Individual	\$3,350	\$3,350
• Family	\$6,750	\$6,650
• Catchup	\$1,000	\$1,000

# General Considerations

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## Timing of Contributions

- Timing of Contributions
  - Generally, elective deferrals are pay-roll deductions
  - Employer contributions by extended due date for return
  - Includes SEPS and Keoghs
- IRAs and HSAs
  - April 15th

# Distribution Requirements

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## Early Withdrawals

- Penalties
  - 10% in addition to income tax
  - 25% for Simple IRAs distributed within 2 years of formation

# Exceptions to 10% Penalty

Circumstances:	Exception to 10% Additional Tax	
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans
<b>Age</b>		
After age 59½	yes	yes
<b>Automatic Enrollment</b>		
Permissive withdrawals from a plan with auto enrollment features	yes	yes for SIMPLE IRAs and SARSEPs
<b>Corrective Distributions</b>		
Timely corrective distributions	yes	n/a

# Exceptions to 10% Penalty cont.

Circumstances:	Exception to 10% Additional Tax	
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans
<b>Death</b>		
After death	yes	yes
<b>Disability</b>		
Total and permanent disability	yes	yes
<b>Domestic Relations</b>		
to an alternate payee under a Qualified Domestic Relations Order	yes	n/a



# Exceptions to 10% Penalty cont.

Circumstances:	Exception to 10% Additional Tax	
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans
<b>Education</b>		
qualified higher education expenses	no	yes
<b>Equal Payments</b>		
series of substantially equal payments	yes	yes
<b>Homebuyers</b>		
qualified first-time homebuyers, up to \$10,000	no	yes

# Exceptions to 10% Penalty cont.

Circumstances:	Exception to 10% Additional Tax	
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans
<b>Levy</b>		
because of an IRS levy of the plan	yes	yes
<b>Medical</b>		
amount of unreimbursed medical expenses (>7.5% AGI; after 2012, 10% if under age 65)	yes	yes
health insurance premiums paid while unemployed	no	yes

# Exceptions to 10% Penalty cont.

Circumstances:	Exception to 10% Additional Tax	
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans
<b>Military</b>		
certain distributions to qualified military reservists called to active duty	yes	yes
if withdrawn by extended due date of return	n/a	yes
earnings on these returned contributions	n/a	no

# Exceptions to 10% Penalty cont.

Circumstances:	Exception to 10% Additional Tax	
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans
<b>Rollovers</b>		
in-plan Roth rollovers or eligible distributions contributed to another retirement plan or IRA within 60 days (also see <a href="#">FAQs: Waivers of the 60-Day Rollover Requirement</a> )	yes	yes

# Exceptions to 10% Penalty cont.

Circumstances:	Exception to 10% Additional Tax	
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans
<b>Separation from Service</b>		
the employee separates from service during or after the year the employee reaches age 55 (age 50 for public safety employees of a state, or political subdivision of a state, in a governmental defined benefit plan)	yes	no
<b>Section 457(b) plans exempt from 10%, rollovers to 457(b) may not be</b>		

# Distribution Requirements cont.

## Required Minimum Distributions

- When they start.
  - The year that a plan beneficiary turns 70 ½ after April 1st
- When distributed.
  - an April 1 withdrawal (for the year you turn 70½), and
  - an additional withdrawal by December 31 (for the year following the year you turn 70½).
  - To avoid having both of amounts included in income for the same year, take first withdrawal by December 31 of the year you turn 70½ instead of waiting until April 1 the next year.

# Distribution Requirements cont.

## Required Minimum Distributions

- Determination of Required Amount
  - A quotient obtained by dividing the:
    - Balance in Fund at the End of the Prior Year
    - Remaining Life Expectancy of Beneficiary
    - Life Expectancy depends on:
      - Whether the Plan owner achieved 70 1/2
      - Single vs Joint beneficiaries
      - Age of the surviving spouse
- Hard-to-Value Assets Rules
  - Perhaps leading to greater IRS scrutiny
  - Some custodians refuse to permit

# Rollovers



# Rollovers cont.

	Qualified Plan	403(b) Plan	457(b) Plan	Thrift Savings Plan	Traditional IRA	SEP IRA	SIMPLE IRA	Roth IRA	Designated Roth Account
Qualified Plan	YES, if: plan accepts, . If rollover is after tax, it must be a direct rollover.	YES, if plan accepts. If rollover is after tax, it must be a direct rollover.	YES, if plan accepts. No rollover of after- tax contributions allowed. Separate accounts.	YES. No rollover of after-tax contributions allowed.	YES. If contribution is after tax, Form 8606 is required.	YES. If contribution is after tax, Form 8606 is required.	NO	YES, as a conversion.	YES, direct internal rollover for distributions, if plan accepts.
403(b) Plan	YES, if plan accepts. If rollover is after tax, it must be a direct rollover.	YES, if plan accepts. If rollover is after tax, it must be a direct rollover.	YES, if plan accepts. No rollover of after- tax contributions allowed. Separate accounts.	YES. No rollover of after-tax contributions allowed.	YES. If contribution is after tax, Form 8606 is required.	YES. If contribution is after tax, Form 8606 is required.	NO	YES, as a conversion.	YES, direct internal rollover for distributions, if plan accepts.
457(b) Plan	YES, if plan accepts. No rollover of after-tax contributions allowed.	YES, if plan accepts. No rollover of after- tax contributions allowed.	YES, if plan accepts. No rollover of after- tax contributions allowed.	YES. No rollover of after-tax contributions allowed.	YES. If contribution is after tax, Form 8606 is required.	YES. If contribution is after tax, Form 8606 is required.	NO	YES, as a conversion.	YES, direct internal rollover for distributions, if plan accepts.

# Rollovers cont.

	Qualified Plan	403(b) Plan	457(b) Plan	Thrift Savings Plan	Traditional IRA	SEP IRA	SIMPLE IRA	Roth IRA	Designated Roth Account
Traditional IRA	YES, if plan accepts. No rollover of after-tax contributions allowed.	YES, if plan accepts. No rollover of after-tax contributions allowed.	YES, if plan accepts. No rollover of after-tax contributions allowed. Separate accounts.	YES. No rollover of after-tax contributions allowed	YES, only 1 indirect rollover per 12 months for all IRAs owned.	YES	NO	YES, as a conversion.	NO
SEP IRA	YES, if plan accepts. No rollover of after-tax contributions allowed.	YES, if plan accepts. No rollover of after-tax contributions allowed.	YES, if plan accepts. No rollover of after-tax contributions allowed. Separate accounts.	YES. No rollover of after-tax contributions allowed.	YES	YES	NO	YES, as a conversion.	NO
SIMPLE IRA	YES, if plan accepts. only after 2 years.	YES, if plan accepts. only after 2 years.	YES, if plan accepts. only after 2 years. Must have separate accounts.	YES, only after 2 years.	YES, only after 2 years.	YES, only after 2 years.	YES	YES, as a conversion after 2 yrs.	NO

# Rollovers cont.

	Qualified Plan	403(b) Plan	457(b) Plan	Thrift Savings Plan	Traditional IRA	SEP IRA	SIMPLE IRA	Roth IRA	Designated Roth Account
Roth IRA	NO	NO	NO	NO	NO	NO	NO	YES	NO
Designated Roth Account (DRA)	NO (see DRA at right)	NO	NO	NO	NO	NO	NO	YES	YES, trustee to trustee transfer

# Recharacterizations

# Recharacterizations

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- Roth recharacterization
  - Unwinding a Roth contribution, conversion, or rollover. Recharacterization provides the taxpayer with the ability to fine tune the conversion amount, in part or whole, long after the initial conversion has been completed.
- Taxpayers can recharacterize
  - A conversion from a traditional IRA or a rollover from a qualified retirement plan by making a trustee-to-trustee transfer from the Roth IRA to a traditional IRA.
  - Rollovers from a qualified retirement plan must be recharacterized to a traditional IRA, not back to the original qualified retirement plan.
  - Doesn't apply to "in plan conversions."

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