7

Questions

Self Assessment ~~Problems~~ for Chapter 7

1. All of the following statements regarding the limitations of IRC §415 are true EXCEPT:
   a. All covered defined benefit plans maintained by the employer must be aggregated for purposes of applying the limitations of IRC §415; similarly all covered defined contribution plans maintained by the employer must be aggregated for purposes of applying the limitations of IRC §415.
   b. IRC §415 imposes a specific definition of compensation in defining the maximum limitations of IRC §415.
   c. The IRC §415 dollar limitation application to defined benefit plans must be adjusted in the following circumstances: distribution in the form of a 10-certain-and-life form of payment; early distribution prior to age 62; late distribution after age 65; and distribution to a participation with less than 10 years of plan participation.
   d. Due to the repeal of IRC §415(e), employers with a sole defined contribution plan may consider adoption of a defined benefit plan beginning in 2000 in order to maximize the use of the defined benefit maximum and the defined contribution maximum.
   e. The pretermination restriction rules of IRC §401(a)(4) are similar to the IRC §415 rules in that they both limit the amount of distribution that can be paid to any participant.

2. How is the IRC §401(a)(17) limit taken into account for purposes of the 100% high 3-year average compensation limit in IRC §415?

3. Although a qualified plan may define what it considers "compensation" for purposes of allocation or accrual purposes, the Code sets forth its definition of compensation for purposes of the maximum limitations of IRC §415; for purposes of determination HCEs under IRC §414(q); and for purposes of determining key employees under the top heavy rules of IRC §416. True False

* Insert A

4.

5. Insert B *

7

What Every Student Should Know by the End of Chapter 7

1. By the end of this chapter, students should know that there are separate dollar and percent of compensation limits for qualified defined contribution plans and defined benefit plans maintained by an employer or any related employer. Obviously allocations under all defined contribution plans of accrued benefits under all defined benefit plans from the employer or a related employer must be combined for purposes of these limits; otherwise an employer could circumvent the limits by establishing multiple plans. Due to the revenue impact that the dollar and percent of compensation limits have on the Treasury, they have been altered numerous times since 1974. EGTRRA '01 extended some generous limitations for qualified defined benefit plans, which small businesses may wish to take advantage of.

2. By the end of this chapter, students should realize that early termination of a defined benefit plan may further respect the benefit payments of the highly paid. The Code's nondiscrimination rules are concerned with small businesses funding and paying benefits for the highly paid and then terminating the plan prematurely thereby prohibiting the rank an file from ever receiving the full level of benefits promised under the plan.

3. By the end of this chapter, students should understand that the maximum limitations impose percentage of compensation limits which obvious define "compensation:" for purposes of the limitation. Alternative definitions of compensation are permitted under the regulations. In any event, compensation is always limited by the annual limit of IRC §401(a))(17).

Self Assessment Problems for Chapter 7

1. using the facts of the Targe plan in Mastery Exercise #1, assume Edna is a participant in the plan with an expected account balance of $50,000 as of 12/31/09. Her base pay is$60,000, but her total compensation for IRC §415(c)(3) purposes is $80,000. Under the terms of the plan, Edna takes a loan of $10,000 using her vested account balance as collateral beginning in 2009 and repays $2,000 of principal and interest during 2009. She received an employer allocation of $3,000 and made a §401(k) deferral of $2,000 during the 2009 plan year. Investment losses of $1,000 were also allocated to her account as of 12/31/09. What is her annual addition for 2009 and has she exceeded her limit?

Insert A

~~2.~~ 4. Joe executive calls you into his office, asking you to explain why he can't receive ~~$160,000~~ $195,000 beginning in ~~2010~~ 2011 as he is retiring at the plan's NRA of 65 and is entitled to ~~$160,000~~ under the plan's NRB formula, but has elected a 15 C&L form of payment (which the plan permits). He just read in the New York Times that the ~~2010~~ defined benefit dollar limit ~~if $160,000~~ is $195,000. Respond to his request.

2011 $195,000

7

Insert B

5 ~~3~~. James Earl Sr. has retained you to assist him in establishing a qualified defined benefit plan as he is now age 60 and wants to retire and pass on the business to James Earl Jr. (who is 35). While James Earl Sr.'s present salary is $500,000, he wants to establish a plan that will provide him with the greatest level of defined benefit income. What options does he have?

4. How does one take into account ~~the co~~mpensation ~~limit of~~ IRC §401(a)(17) in determining the defined ~~benefit~~ percent of compensation limit?