


# Compensation Fundamentals

## Plan Compensation

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# HOUSEKEEPING

- Location for handouts (same as registration):  
[www.datair.com/training.htm](http://www.datair.com/training.htm)
- Webinar is being recorded and will be posted within a week of the live session (technology permitting)
  - To listen to the recording, register again
  - Once registered, recording will begin playing
- Problems with audio through your computer?
  - Close other programs (e.g. email)
  - Or, use audio panel to switch to phone
- Questions during the live session?
  - Submit questions through the Question panel
  - We'll answer during the session, as time allows
  - Others will be answered, shortly after and posted to website

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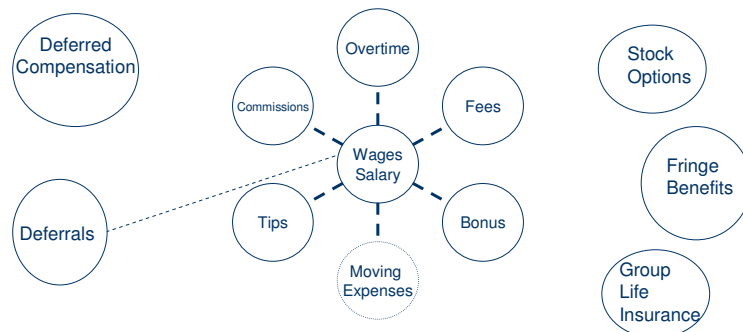
## Agenda

- What is Compensation?
- How will Compensation be used?
- What definitions of Compensation can I use in the Plan?
  - Design limitations
  - Payroll considerations

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## What is Compensation?



415(c) Compensation Basic Components

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## What is Compensation?


### 415(c) General Definition

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“Total” and “Includible” Income

- Cash or Non-Cash
- Paid for personal services “actually” performed
- “Earned Income”
- Payments for injuries or sickness
- Moving Expenses – nondeductible
- Value of Non-Statutory Options
- Fair Market Value of Property under Sec. 83(b)
- Amount arising from Constructive Receipt Rules

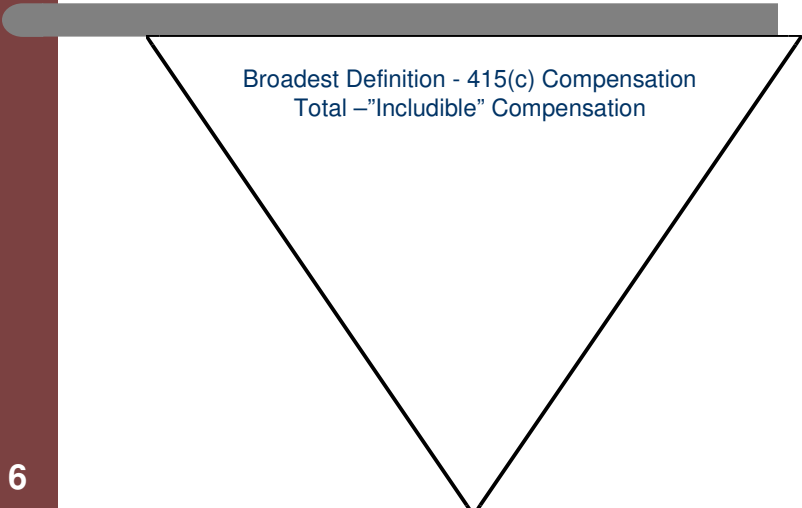
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## What is Compensation?

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Broadest Definition - 415(c) Compensation  
Total – “Includible” Compensation



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## Compensation Statutory Exclusions 415(c)-2(c)

- Deferred Compensation – SEP, Simple-k
- Restricted Stock or Non-Statutory Option
- Proceeds from Sale or Exchange of Statutory Stock Option
- Special Tax Benefits from group life insurance

Exclusions should be interpreted broadly. Exclude other items that are “similar.”


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## 415(c) Compensation Excluded Components

Compensation

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## What is Compensation?

### Alternative Safe Harbor Definitions


415(c) Compensation  
Total – “Includible” Compensation”

414(s) Safe Harbors Definitions

- “Simplified” 415(c)
- W-2 “Reportable” Income
- 3401(a) Income Tax Withholding

Others  
414(s)(d)

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## What is Compensation?

### Related Definitions

- “Compensation Limitation 401(a)(17)”
- “Compensation Computation Period”
- “Earned Income” (net earnings)

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## What is Compensation?

### Related Definitions

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- When is “Earned Income” a consideration?
- Who determines Earned Income?
- When is Earned Income determined?

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## What is Compensation?

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- For all qualified plan purposes - subject to Code section 401(a)(17) limitations
  - \$200,000 + annual index
  - \$245,000 for 2009 and 2010
  - E.g. Qualified Plan Accruals/Allocations, Deduction and SEP
- Defined Benefit Plans
- Defined Contribution Plans

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**How will Compensation be used?**  
**Defined Benefit Plan**

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- Benefit Accruals and Payments
- Limitation and Adjustments to Benefits
- Testing
- Employer Tax Deduction under Code Sec. 404

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**How will Compensation be used?**  
**Defined Benefit Plan**

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- Defined Benefit Plan Maximum Annual Benefit
  - Sec 415(b)(1)
  - lesser of \$160,000 (as Indexed, \$195,000 in 2010), or
  - 100 percent of Average Compensation for highest 3 year of service

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**How will Compensation be used?  
Defined Contribution Plan**

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- Limits on Contributions
  - Allocation
  - Deferrals
    - Active, Disabled or Terminated Employee
- HCE and Key Employee Status
- Testing
- Employer Tax Deduction under Code Sec.404

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**How will Compensation be used?  
Defined Contribution Plan**

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- Defined Contribution Plan Maximum Annual Additions - Sec 415(c)(1)
  - lesser of \$40,000 (as Indexed, \$49,000 for 2010), or
  - 100 percent of 415 Compensation for the Limitation Year.

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## How will Compensation be used? Defined Contribution Plan

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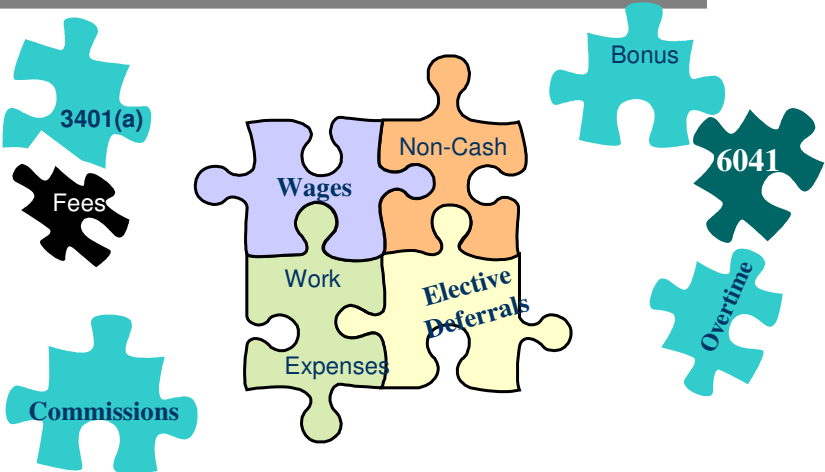
- Payroll Considerations
- Design Options and Considerations

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## How will Compensation be used? Payroll Issues

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## How will Compensation be used? Design Limitations

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- Plan Design and Features
  - 415(c) General Definition
  - vs
  - 414(s) Safe Harbor Definitions
- When am I required to use each type of definition?

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## What Definition Compensation can I use? Allocation of Contributions

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Voluntary Allocations	vs	Mandatory Allocations
• Elective Deferrals		• Safe Harbor
• Match		• Top Heavy Minimum
• Profit Sharing		• Corrective
• Non-Elective		

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## What Definition of Compensation can I use? Design Limitations

<u>Plan Document</u>	<u>Type of Definition</u>
<ul style="list-style-type: none"> <li>● Voluntary Allocations</li> <li>● Safe Harbor Contributions</li> <li>● 415 Limitation</li> <li>● Top Heavy 416</li> <li>● Determine HCE/Key</li> <li>● Corrective Contributions</li> <li>● ADP/ACP Testing</li> </ul>	<ul style="list-style-type: none"> <li>● 415(c) or any 414(s)                             <ul style="list-style-type: none"> <li>● 414(s)</li> <li>● 415(c)</li> <li>● 415(c)</li> <li>● 415(c)</li> </ul> </li> <li>● Plan Comp or 414(s)                             <ul style="list-style-type: none"> <li>● 414(s)</li> </ul> </li> </ul>

Wherever possible the same definition should be used in the Plan.


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## Compensation in a DC Plan

Inside of a DATAIR document

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## Compensation – Design Options

### 415(c) General Definition

“Total” and “Includible” Income
Include or Exclude
Amounts deferred under Code sections 125, 132(f)(4), 402(e)(3), 402(h), or 403(b).
Overtime*
Commissions*
Bonuses*
Taxable Employee Benefits*

**23** \*Modification permitted, if it does not favor the highly compensated employees.



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## Compensation – Design Options

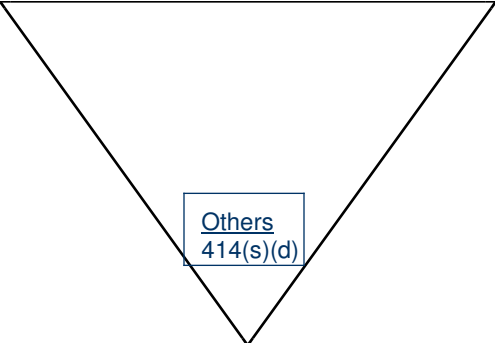
### 414(s) Safe Harbor Compensation

W-2 Reportable Income Includes	3401(a) Income Tax Withholding Includes	415(c) Total and Includible Income Includes or Excludes
Amounts deferred under Code sections 125, 132(f)(4), 402(e)(3), 402(h), or 403(b).		
Overtime*		
Commissions*		
Bonuses*		
Taxable Employee Benefits*		

**24** \*Modification permitted, if it does not favor the highly compensated employees.




## Compensation – Design Options Warning



Can not use a Definition of Compensation that discriminates in favor of a highly compensated employee, unless you can pass Compensation Ratio Test 414(s)(d)


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## Compensation Design Options

W-2 Reportable Income	3401(a) Income Tax Withholding	415(c) Total and Includible
Include or Exclude		
<p><u>Deemed Section 125 Compensation</u></p> <p><i>Do you have a Cafeteria Plan?</i></p> <p><i>Do you automatically enroll employees for group health coverage?</i></p> <p><i>Are there dollars available to employee in lieu of group health coverage</i></p>		


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## Compensation Design Options

W-2 Reportable Income	3401(a) Income Tax Withholding	415(c) Total and Includible
<p><u>Prior to Severance of Employment</u>                      actually paid or made available                      during                      Limitation Year or Plan Year                      Includes payments due to “de minimis” timing delays*  <u>Option</u>                      Initial Year Limit to period of Eligibility</p>		


**27**
\*May be excluded


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## Compensation Design Options

W-2 Reportable Income	3401(a) Income Tax Withholding	415(c) Total and Includible
<p><u>Post-Severance of Employment</u>                      Regular earnings that one would have received                      but for SOE                      within 2 ½ months or LD of Limitation Year  <u>Options*</u>                      Bona Fide Vacation, Sick or Leave of Absence                      Military Pay                      Disability Pay</p>		

**28**
\*May be excluded



## DC Plan Design


### Once Again! Many Compensation Definitions

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<u>Plan Document</u>	<u>Type of Definition</u>
• Voluntary Allocations	• 415(c) or any 414(s)
• Safe Harbor Contributions	• 414(s)
• 415 Limitation	• 415(c)
• Top Heavy 416	• 415(c)
• Determine HCE/Key	• 415(c)
• Corrective Contributions	• Plan Comp or 414(s)
• ADP/ACP Testing	• 414(s)

Wherever possible the same definition should be used in the Plan

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## Compensation in DC Plan

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<u>Plan Document</u>	<u>2007 Interim Amendment</u>
• Compensation	• Post-Severance
• Allocation to Disabled EE	• Timing Delays
• 415 Limitation	• Military Pay
• Top Heavy 416	• Disability Pay
• Safe Harbor Contribution	


2009 Interim Amendment  
Differential Wage Payments

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## Questions

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## Resources

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- DS/WIN Release Notes
- DATAIR Employee Benefit Systems, Inc.
  - Customer Support:  
Email: [support@datair.com](mailto:support@datair.com)  
Telephone: (630)325-2600
  - DATAIR Discussion Forum: <http://www.datair.com/>
- Internal Revenue Service (IRS)
  - Retirement Plans Community:  
<http://www.irs.gov/retirement/index.html>

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