

The Alpha Case

A RETIREMENT PLANNING MINI-CASE

Alpha Corporation is considering its alternatives in relation to establishing a retirement plan for its employees. Please help the CFO of Alpha Corporation answer the following questions:

Case Questions

1. Alpha Corporation has 100 full-time nonunion employees. What is the minimum number of employees that must be allowed to participate in the company's defined benefit plan?
 - a. 40
 - b. 50
 - c. 75
 - d. 100
2. The CFO would like to implement a 401(k)/profit sharing plan. If 75% of the firm's employees stay with the company for only two years (i.e., the firm has high turnover), and the remainder stay for an average of at least 10 years, which vesting schedule should the CFO choose if she wants to minimize plan administration costs?
 - a. 2–6 year graduated
 - b. 3-year cliff
 - c. 3–7 year graduated
 - d. 5-year cliff
3. Jana, age 25, has worked for Alpha Corporation on a part-time basis (i.e., 900 hours per year) for four years. Is she eligible to participate in the firm's 401(k) plan?
 - a. Yes, because she is older than age 21.
 - b. No, because she has not accumulated enough hours for the year.
 - c. Yes, because she has worked for more than two years.
 - d. No, because she has not worked for at least five years.
4. The CFO's husband, Bud (age 43), also works at Alpha Corporation. He earns \$28,000. He just contributed \$3,000 to a Roth IRA. When must he begin taking distributions from the Roth IRA?
 - a. Never
 - b. At age 59½
 - c. At age 70½
 - d. At age 75
5. The CFO would like to establish a deferred compensation plan for herself. She wants any money contributed to the plan to be protected from the firm's creditors. Which nonqualified deferred compensation plan should she choose?
 - a. A rabbi trust
 - b. A secular trust
 - c. A 457 plan
 - d. An unfunded promise-to-pay plan
6. The CFO feels bad about having a plan for the exclusive benefit of key employees, including herself. She would

like you to recommend a qualified plan that would allow her to restrict employee contributions but would permit the firm to make contributions as a tool to increase employee productivity. Which of the following three plans should she use?

- I. A defined benefit plan
- II. A stock bonus plan
- III. An ESOP

- a. I only
- b. II only
- c. II or III only
- d. I, II, or III

7. Which type of plan should the CFO choose if she wants Alpha Corporation to absolutely guarantee benefits to eligible employees (i.e., employees will know exactly how much they will receive when they retire)?

- a. A 401(k) plan
- b. A profit-sharing plan
- c. A target benefit plan
- d. A defined benefit plan

8. Micala, an employee of Alpha Corporation, is 53 years old. She is considering divorcing her husband Jack. They have been married for nine years. If Micala gets a divorce, is she eligible to receive a spousal benefit from Jack's Social Security benefit?

- a. No, because they have not been married for 10 years.
- b. Yes, because they have been married for at least five years.
- c. No, because as someone with a job she can claim only her own Social Security benefit.
- d. Yes, because she is younger than age 60 at the time of divorce.

9. Christina (age 41) terminates employment with Alpha Corporation, and she rolls over her 401(k) account balance to an IRA. Which of the following statements is true, assuming that she takes the money directly before rolling it over?

- I. She must roll over the full amount of the distribution within 60 days to avoid taxation and penalties.
- II. If she distributes \$200,000 from the 401(k) plan, she must roll over \$160,000 to avoid a penalty.
- III. If she fails to roll over the full distribution, she will incur a 10% penalty.

- a. I only
- b. III only
- c. I and II only
- d. I and III only

10. Which of the following health insurance options does Christina have as a result of quitting her job with Alpha Corporation?

- a. She is ineligible for COBRA coverage because Alpha Corporation employs fewer than 100 employees.
- b. She is eligible for COBRA coverage because Alpha Corporation employs more than 20 employees.
- c. COBRA coverage will cover expenses associated only with pre-existing conditions.
- d. Both b and c are correct.