

## 2010 Retirement Deduction Opportunities Combination Cash Balance / 401(k) / Profit Sharing Plans

### What is a Cash Balance Plan?

A Cash Balance Plan is an IRS tax-qualified retirement plan that looks like a typical savings or profit sharing plan. Each participant has a “hypothetical account” whereby the *employer* contributes to the account a specified percent of pay. The account is credited a rate of return annually (usually based on a government security index). Upon termination or retirement, the account balance is generally paid to the participant.

A participant’s cash balance account is hypothetical since it is pooled with all other participants’ accounts and is not technically a separate account. The employer makes contributions to the pooled fund and promises a specified rate of return. If the pooled funds earn more than promised, future employer contributions may be reduced. If the pooled funds earn less than promised, future employer contributions may be increased. Most small employers implement a conservative investment strategy to prevent surprise contributions.

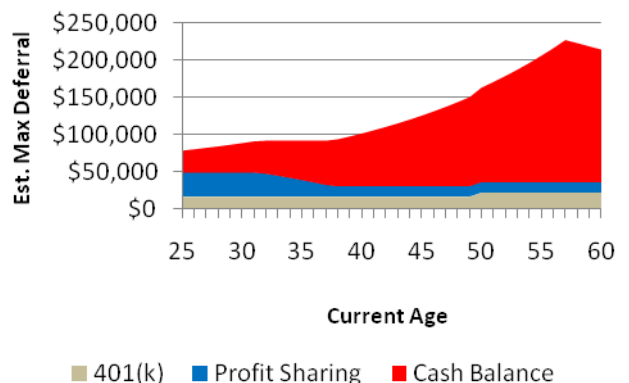
A cash balance plan layered on top of a 401(k) / profit sharing plan is called a “*DB/DC Combination Plan*”.

### What Deduction Opportunities are Available?

Without including a cash balance plan, the maximum single-participant deduction under a 401(k) and profit sharing plan is limited to \$49,000 in 2010 (\$54,500 if eligible for catch-up contributions). By including a cash balance plan, the maximum deduction opportunity is significantly increased. The chart to the right shows the potential opportunity based on the owner’s start age.

Professional service firms with less than 25 participants and owner-only plans are subject to an overall 31% of pay limit (ignoring 401(k) deferrals). However, the 31% limit does not apply if employer contributions to the 401(k)/profit sharing plan are 6% or less. The chart reflects these limits.

**2010 Deduction Opportunity for DB/DC Combo Plan  
Assumes Retirement at Later of Age 62 or 5 Years**



### Who should consider a Cash Balance Plan?

- Business owners wanting to deduct retirement amounts in excess of \$49,000
- Professional service groups (e.g. physician groups, dental practices, law firms, and other professional groups)
- Companies of all sizes

### What must be provided to employees?

Since Cash Balance Plans are tax-qualified they are subject to discrimination rules. Contributions to employees will vary depending on the desired owner/key employee deductions. Total contributions to employees are generally at least 7% to 10% of employee pay. Actual plan design will vary depending on the age and pay of employees and owners.



Specializing in Actuarial Retirement Plan Services

## 2010 Retirement Deduction Opportunities

### Comparison of Profit Sharing 401(k) Plan Only to Inclusion of Cash Balance Plan

	Age	Estimated Pay for Year Beginning 1/1/2010	401(k) Safe Harbor and Profit Sharing	Allocation to Cash Balance Plan	Total Company Contributions	Elective 401(k) w/Catch-up	Total
<b>Profit Sharing / 401(k) Plan Only</b>							
<b>Owner</b>	56	245,000	32,500	-	32,500	22,000	<b>54,500</b>
% of Pay			13.3%	0.0%	13.3%	9.0%	22.2%
<b>NHCEs</b>							
Employee 1	63	37,000	1,850	-	1,850		1,850
Employee 2	36	35,000	1,750	-	1,750		1,750
Employee 3	31	32,000	1,600	-	1,600		1,600
Employee 4	61	50,000	2,500	-	2,500		2,500
Employee 5	39	48,000	2,400	-	2,400		2,400
Employee 6	44	28,000	1,400	-	1,400		1,400
<b>Total NHCEs</b>	46	230,000	11,500	-	11,500	-	<b>11,500</b>
% of Pay			5.0%	0.0%	5.0%	0.0%	5.0%
<b>Grand Total</b>		475,000	44,000	-	44,000	22,000	66,000
% of Pay			9.3%	0.0%	9.3%	4.6%	13.9%
<b>Profit Sharing / 401(k) Plan with a Cash Balance Plan</b>							
<b>Owner</b>	56	245,000	32,500	85,750	118,250	22,000	<b>140,250</b>
% of Pay			13.3%	35.0%	48.3%	9.0%	57.2%
<b>NHCEs</b>							
Employee 1	63	37,000	2,220	1,110	3,330		3,330
Employee 2	36	35,000	2,100	1,050	3,150		3,150
Employee 3	31	32,000	1,920	960	2,880		2,880
Employee 4	61	50,000	3,000	1,500	4,500		4,500
Employee 5	39	48,000	2,880	1,440	4,320		4,320
Employee 6	44	28,000	1,680	840	2,520		2,520
<b>Total NHCEs</b>	46	230,000	13,800	6,900	20,700	-	<b>20,700</b>
% of Pay			6.0%	3.0%	9.0%	0.0%	9.0%
<b>Grand Total</b>		475,000	46,300	92,650	138,950	22,000	160,950
% of Pay			9.7%	19.5%	29.3%	4.6%	33.9%

**Note:** By including a cash balance plan, this sample owner is able to increase his/her contribution by over \$85,000 while contributing an extra \$9,200 to employees.

Please contact the consultants at TSC if you want to learn more and determine whether a Cash Balance Plan makes sense for your organization.