RETIREMENT PLAN SOLUTION EXAMPLES

Planning for retirement is something that is relevant to everyone's life. The fact of the matter is that there is no universally optimal retirement plan. A well designed retirement plan will allow a company to put away tax deferred money for their employee's retirement while obtaining favorable tax deductions for the company. A poorly designed retirement plan could be financially constraining and may cost more than it's worth in time and money. Here at Independent Actuaries we understand that we are providing a service, not a product, and can help find plans that work best for our clients or help modify existing plans to better meet their goals.

In this brochure, we have developed four one-page examples of different retirement scenarios. The client's goals in each example are listed at the top of each sheet, along with client characteristics and our sample plan solution. In an effort to highlight how complicated plan design can be and how important it is to get it right, we've shown on the lower half of each sheet why each of the other plan types will not meet the client's goals. Even though numbers will vary depending on actual data, these examples show the big picture of where traditional defined benefit, cash balance, cross-tested defined contribution, or floor offset arrangement might be the ideal plan solution for our clients.

When looking through the examples, it is important to note that there is not one perfect solution. The best retirement plan design for each client depends on their individual demographics, specific goals, and regulatory and financial constraints. Clear objectives and communication will mitigate any surprises regarding plan design and costs.

At Independent Actuaries, we work directly with our clients to meet their retirement goals. What sets us apart from the rest is that we are an actuarial firm owned and operated by actuaries. Our staff of eighteen includes eight credentialed actuaries and four credentialed consultants with over one hundred years of combined experience designing and maintaining retirement plans. Our focus on relationships and communication allows us to provide exceptional customer service to every client. Whatever the circumstance, we are uniquely situated to help find the most advantageous plan design to enable our clients to reach their retirement goals.

Unlike most retirement administration service providers, we do not sell any investment products, provide investment advice, or accept any investment related fees. Truly independent, we are free to focus on what is best for you, regardless of where you choose to invest your money.

If you would like to explore the possibility of setting up a retirement plan, or modifying an existing plan that isn't meeting your goals, feel free to contact us to discuss your options.

Please note that the following examples are illustrations of plan designs. Actual contributions and benefits will depend on plan design and employee demographics.

CASH BALANCE PLAN EXAMPLE

Client Characteristics –

- Thomas, Kelly and Jonathan own a law firm.
- Thomas is age 57, Kelly is age 48 and Jonathan is age 52.
- Similar compensation levels.

Client Goal –

- All three owners want to put away as much money as possible for retirement on a tax deferred basis.
- All three owners would each like to put away the same amount each year and end up with the same lump sum value on any given date.

Cash Balance Plan Solution –

Allocation of Investment	Thomas	Kelly	Jonathan
Annual Tax-Deferred Contribution:	$130,000	$130,000	$130,000
Lump Sum in Five Years:	$720,000	$720,000	$720,000

	Thomas	Kelly	Jonathan
Traditional Defined Benefit Plan –			
Lump Sum in Five Years:	$910,000	$560,000	$695,000
Comments:	With a traditional defined benefit plan and a similar total contribution amount, larger percentages are shifted to the older partners.		
Cross-Tested Defined Contribution Plan –			
Lump Sum in Five Years:	$326,000	$312,000	$326,000
Comments:	Statutory limits prevent Kelly from putting away more than $53,000 per year and Thomas and Jonathan from putting away more than $59,000 per year (with catch-up contributions for individuals over age 50).		
Floor Offset Arrangement –			
Lump Sum in Five Years:	$890,000	$545,000	$730,000
Comments:	The lump sum shown above includes the balance in both the defined benefit and defined contribution plans. A floor offset plan is not intended for a situation in which there are no employees, and is similar to the traditional defined benefit plan but with more complexity and volatility.		

TRADITIONAL DEFINED BENEFIT PLAN EXAMPLE

Client Characteristics –

- Brian and Joanne are small business owners.
- Brian is age 50 and Joanne is age 46.
- They intend to keep the business going for ten years.
- Similar compensation levels for owners.
- There is one employee currently age 25.

Client Goal –

- Brian and Joanne each want to put away as much money as possible for retirement on a tax deferred basis.

Traditional Defined Benefit Plan Solution –

Allocation of Investment	Brian	Joanne	Employee
Annual Tax-Deferred Contribution:	$185,000	$150,000	$7,000
Lump Sum in Ten Years:	$2,350,000	$1,900,000	$85,000

		Brian	Joanne	Employee
Cash Balance Plan –				
	Annual Contribution:	$145,000	$115,000	$9,000
	Comments:	Brian and Joanne can better control their respective contribution targets, but a cash balance plan will add complexity to the calculations and doesn't produce quite as good results as a traditional DB plan.		
Cross-Tested Defined Contribution Plan –				
	Annual Contribution:	$59,000	$53,000	$9,000
	Comments:	Statutory limits prevent Brian and Joanne from putting away more than $59,000 and $53,000 per year, respectively, on a tax-deferred basis.		
Floor Offset Arrangement –				
	Annual Contribution:	$230,000	$190,000	$3,000
	Comments:	These numbers are actually somewhat better than for the traditional DB plan, but the additional complexity and potential volatility of nondiscrimination testing for such a small group keeps us from recommending this design.		

CROSS-TESTED DEFINED CONTRIBUTION PLAN EXAMPLE

Client Characteristics –

- Karen and Mike are owners of XYZ Inc.
- Karen is age 56 and Mike is age 50, and both want to retire at age 62.
- XYZ Inc. has six other employees, all of whom are much younger than either Karen or Mike.

Client Goal –

- Karen and Mike do not need to put away more than $50,000 per year for each of themselves on a tax deferred basis, and want contribution flexibility from year to year.

Cross-Tested Defined Contribution Plan Solution –

Allocation of Investment	Karen	Mike	Employees
Annual Contribution:	$50,000	$50,000	$13,000
Lump Sum in Six Years:	$340,000	$340,000	$90,000

	Karen	Mike	Employees
Cash Balance Plan –			
Annual Contribution:	$50,000	$50,000	$35,000
Comments:	With a cash balance plan, Karen and Mike will have less flexibility year to year in determining their contribution, and will need to make much higher contributions for their employees.		
Traditional Defined Benefit Plan –			
Annual Contribution:	$58,000	$42,000	$29,000
Comments:	Again, Karen and Mike will have less flexibility year to year in determining their contribution, and will need to make much higher (and age-graded) contributions for their employees.		
Floor Offset Arrangement –			
Annual Contribution:	$58,000	$42,000	$12,000
Comments:	When contribution maximums are below the current DC limits, having a second plan does not add value. In addition, Karen and Mike will have less flexibility year to year in determining their contribution.		

FLOOR OFFSET ARRANGEMENT EXAMPLE

Client Characteristics –

- Robert and Dennis own XYZ, LLC.
- Robert is age 59 and Dennis is age 56, and both want to retire at age 62.
- Similar compensation levels.
- XYZ, LLC. has ten employees participating in their existing Defined Contribution Plan, some of whom are near Robert and Dennis' age.

Client Goal –

- Robert and Dennis have an existing Defined Contribution Plan, but want to start making much larger contributions on a tax deferred basis.

Floor Offset Arrangement Solution –

Allocation of Investment	Robert	Dennis	Employees
Annual Tax-Deferred Contribution:	$250,000	$230,000	$0
Lump Sum at Retirement Age:	$785,000	$1,570,000	$0

The contributions to the existing DC plan satisfy the benefits for the employees.

	Robert	Dennis	Employees
Cash Balance Plan –			
Annual Contribution:	$230,000	$200,000	$7,000
Comments:	A cash balance plan can be added to a defined contribution plan for testing purposes. However, some benefits will need to be provided under the cash balance plan, making this design more costly.		
Cross-Tested Defined Contribution Plan –			
Annual Contribution:	$59,000	$59,000	$20,000
Comments:	Statutory limits prevent Robert and Dennis from putting away more than $59,000 per year on a tax-deferred basis.		
Traditional Defined Benefit –			
Annual Contribution:	$250,000	$230,000	$60,000
Comments:	Contributions for owners values are the same as in the floor offset plan, but a floor offset arrangement can minimize the contribution allocated to employees under the defined benefit plan.		