PENSION TRENDS

BY INDEPENDENT ACTUARIES, INC.

IndependentActuaries.com

Volume XIX, Issue IV

October 2018

Floor Offset Arrangements

In previous newsletters this year, we have explored various types of retirement plans and the differences between them. Today I want to look at another type of retirement arrangement that is not well known but can be an ideal retirement solution for many businesses: a floor offset arrangement. In this type of arrangement a defined benefit plan works with and is closely linked to a separate profit sharing plan. Similar to a cash balance plan (discussed in the May 2018 newsletter), this type of arrangement allows the business owner to provide some retirement income for their employees while maximizing the contribution for the owner's benefit.

Floor offset arrangements are advantageous for both the owner and the employees. The high-level result is that the employees receive a contribution to the profit sharing plan (typically 6% to 10% of pay), while the owner receives the bulk of his or her benefit in the defined benefit plan. Because the contribution limits are much higher in defined benefit plans, the owner is able to contribute larger amounts for his or her own benefit.

In many cases, owners already have a 401(k) profit sharing plan where they are contributing 3% to 5% of pay to their employees. Often, increasing the benefit to employees can allow the owner to make tax deductible contributions of $100k to $200k for his or her own benefit in the defined benefit plan.

Floor offset arrangements and cash balance plans work well in certain situations, especially if the owner wants to contribute more than the $55k individual limit he or she can get in a 401(k) profit sharing plan alone. So when would we recommend a floor offset arrangement instead of a cash balance plan? The answer has to do with the number of business owners: In a situation with a single business owner (or owners who are married), a floor offset arrangement often works best. In a situation with multiple business owners, a cash balance plan might be better.

For example, let's look at a scenario with a business owner and ten employees:

Client Characteristics:

- Sam owns XYZ, LLC
- Sam is age 59 and wants to retire at age 62.
- XYZ, LLC has ten employees participating in their existing 401(k) profit sharing plan.

Client Goal:

Sam wants to start making much larger contributions on a tax deferred basis than his existing 401(k) profit sharing plan allows.

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This article was written by Kerry M. Smith, ASA, EA, MAAA and Josh Harris, ASA, MAAA. Kerry's specialties and areas of interest include designing proposals and working with aggregate plan designs, like floor offset and cash balance plans. Josh's specialties and areas of interest include Other Post-Employment Benefits and Accounting Standards for retirement plans.

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Current 401(k) Profit Sharing Plan:

	Deferrals	Profit Sharing	Total with Deferrals
Sam	$24,500	$36,500	$61,000
Employees	$0	$21,500	$21,500
Total Deductible Employer Contribution	N/A	$58,000	N/A

Floor Offset Arrangement Solution:

	Deferrals	Defined Benefit Plan	Profit Sharing	Total with Deferrals
Sam	$24,500	$268,000	$10,000	$302,500
Employees	$0	$0	$40,000	$40,000
Total Deductible Employer Contribution	N/A	$268,000	$50,000	N/A

By adopting a floor offset arrangement, Sam can increase tax deductible contributions significantly while incurring only a small additional employee expense.

Deciding what type of retirement plan is best for your business can be overwhelming. At Independent Actuaries, we are happy to start the conversation by helping you explore various types of plans and determine which one fits your particular situation and goals.

To be able to make a deductible contribution for 2018, a qualified plan needs to be in place by December 31, 2018. If you are interested in exploring the possibility of a qualified plan for your business, please contact us at 503-520-0848 or at www.independentactuaries.com/contact.

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