# 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 plans 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 twenty-two includes seven 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 help our clients 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.*

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# CASH BALANCE PLAN EXAMPLE

**Client Characteristics** –

- Thomas, Kelly and Jonathan own a law firm.
- Thomas is age 57, Kelly is age 44 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: | $150,000 | $150,000 | $150,000 |
| Lump Sum in Five Years: | $840,000 | $840,000 | $840,000 |

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| | Thomas | Kelly | Jonathan |
|---|---|---|---|
| **Traditional Defined Benefit Plan** – | | | |
| Lump Sum in Five Years: | $1,200,000 | $600,000 | $920,000 |
| 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: | $305,000 | $274,000 | $305,000 |
| Comments: | Statutory limits prevent Kelly from putting away more than $49,000 per year and Thomas and Jonathan from putting away more than $54,500 per year (with catch up contributions for individuals over age 50). | | |
| **Floor Offset Plan** – | | | |
| Lump Sum in Five Years: | $1,200,000 | $600,000 | $920,000 |
| 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 if there are no employees and is essentially equal to the traditional defined benefit plan. | | |

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# TRADITIONAL DEFINED BENEFIT PLAN EXAMPLE

**Client Characteristics** –

- Brian and Joanne are small business owners.
- Brian is age 45 and Joanne is age 41.
- They intend to keep the business going for 15 years.
- Similar compensation levels for owners.
- There is one employee currently age 25.

**Client Goal** –

- Brian and Joanne 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: | $80,000 | $60,000 | $5,000 |
| Lump Sum in Fifteen Years: | $2,400,000 | $1,800,000 | $140,000 |

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| | Brian | Joanne | Employee |
|---|---|---|---|
| **Cash Balance Plan** – | | | |
| Annual Contribution: | $70,000 | $70,000 | $5,000 |
| Comments: | Brian and Joanne can equalize their contribution percentages, but a cash balance plan will add complexity to the calculations and may require multiple plans (DB and DC) to pass nondiscrimination tests. | | |
| **Cross-Tested Defined Contribution Plan** – | | | |
| Annual Contribution: | $49,000 | $49,000 | $2,000 |
| Comments: | Statutory limits prevent Brian and Joanne from putting away more than $49,000 per year on a tax-deferred basis. | | |
| **Floor Offset Plan** – | | | |
| Annual Contribution: | $80,000 | $60,000 | $0 |
| Comments: | Contributions above are only for the defined benefit plan. A DC plan will be required with additional contributions necessary (typically between 5% and 7.5% of pay). | | |

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INDEPENDENT ACTUARIES INC.

# 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 $49,000 per year for each of themselves on a tax deferred basis. They cannot afford the catch-up contributions at this time, but do want flexibility from year to year.

**Cross-Tested Defined Contribution Plan Solution** –

| Allocation of Investment | Karen | Mike | Employees |
|---|---|---|---|
| Annual Contribution: | $49,000 | $49,000 | $10,000 |
| Lump Sum in Six Years: | $338,000 | $338,000 | $70,000 |

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| | Karen | Mike | Employees |
|---|---|---|---|
| **Cash Balance Plan** – | | | |
| Annual Contribution: | $44,000 | $44,000 | $20,000 |
| Comments: | With a cash balance plan, Karen and Mike will have no flexibility year to year in determining their contribution. | | |
| **Traditional Defined Benefit Plan** – | | | |
| Annual Contribution: | $53,000 | $38,000 | $17,000 |
| Comments: | With a traditional defined benefit plan, Karen and Mike will have no flexibility year to year in determining their contribution and contribution percentages are age-weighted. | | |
| **Floor Offset Plan** – | | | |
| Annual Contribution: | $55,000 | $46,000 | $7,000 |
| Comments: | When contribution maximums are below the current DC limits, it does not benefit to add a second plan. In addition, Karen and Mike will have no flexibility year to year in determining their contribution. | | |

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# FLOOR OFFSET PLAN 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 larger contributions on a tax deferred basis.

**Floor Offset Plan Solution** –

| Allocation of Investment | Robert | Dennis | Employees |
|---|---|---|---|
| Annual Tax-Deferred Contribution: | $200,000 | $200,000 | $0 |
| Lump Sum at Retirement Age: | $1,200,000 | $1,400,000 | $0 |

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

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| | Robert | Dennis | Employees |
|---|---|---|---|
| **Cash Balance Plan** – | | | |
| Annual Contribution: | $200,000 | $200,000 | $6,000 |
| Comments: | The contributions shown above are level contributions. Actual contributions may be less in the first year. 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: | $54,500 | $54,500 | $17,000 |
| Comments: | Statutory limits prevent Robert and Dennis from putting away more than $54,500 per year on a tax-deferred basis. Also, young employees require a higher contribution. | | |
| **Traditional Defined Benefit** – | | | |
| Annual Contribution: | $200,000 | $200,000 | $50,000 |
| Comments: | Contributions for owners values are approximately the same as in the floor offset plan, but a floor offset plan can minimize the contribution allocated to employees under the defined benefit plan. | | |

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