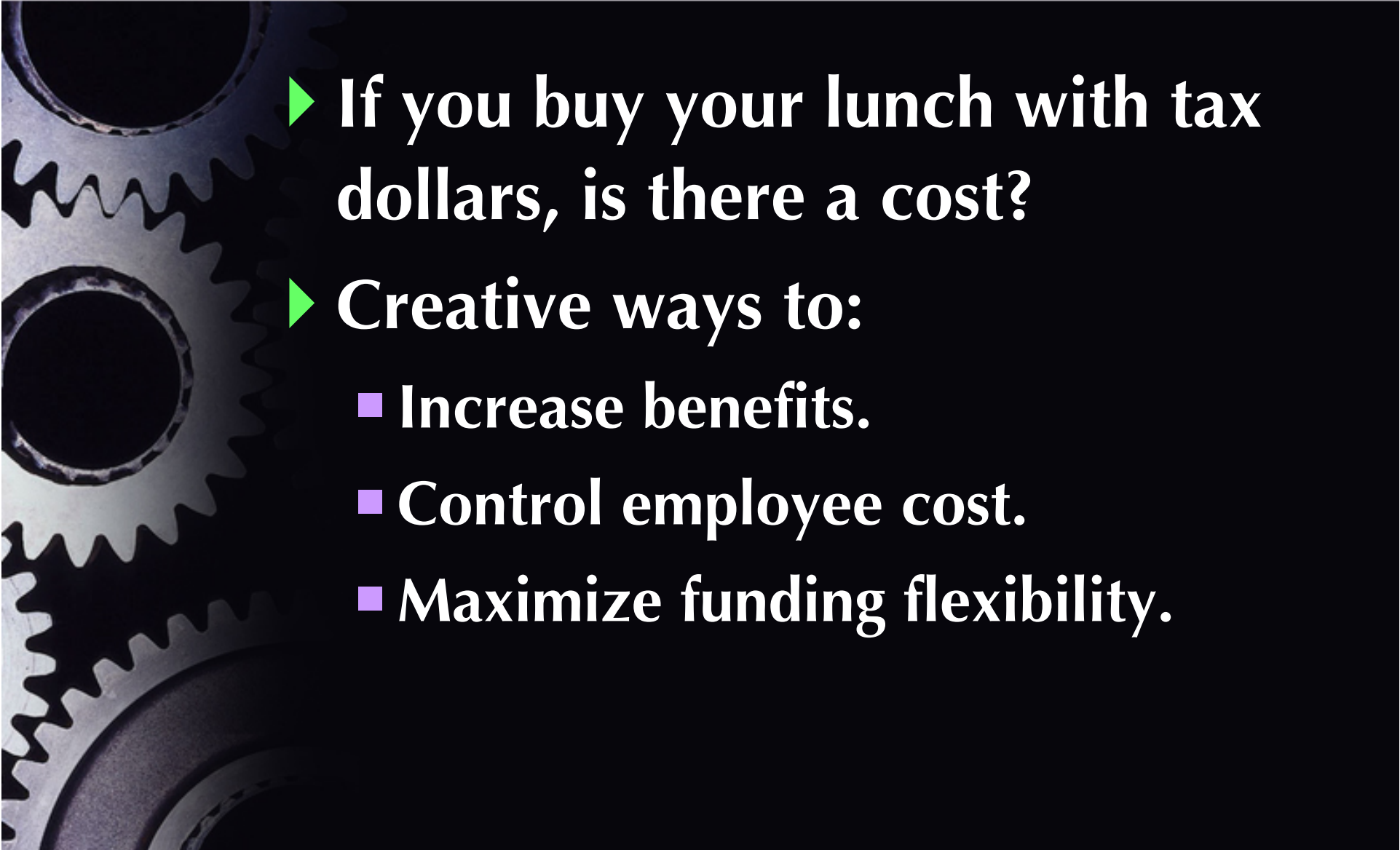




Maximizing Benefits...

While maintaining
funding flexibility

What Do You Want to Fund?

- 
- ▶ If you buy your lunch with tax dollars, is there a cost?
 - ▶ Creative ways to:
 - Increase benefits.
 - Control employee cost.
 - Maximize funding flexibility.

Helping Clients



▶ **Client needs:**

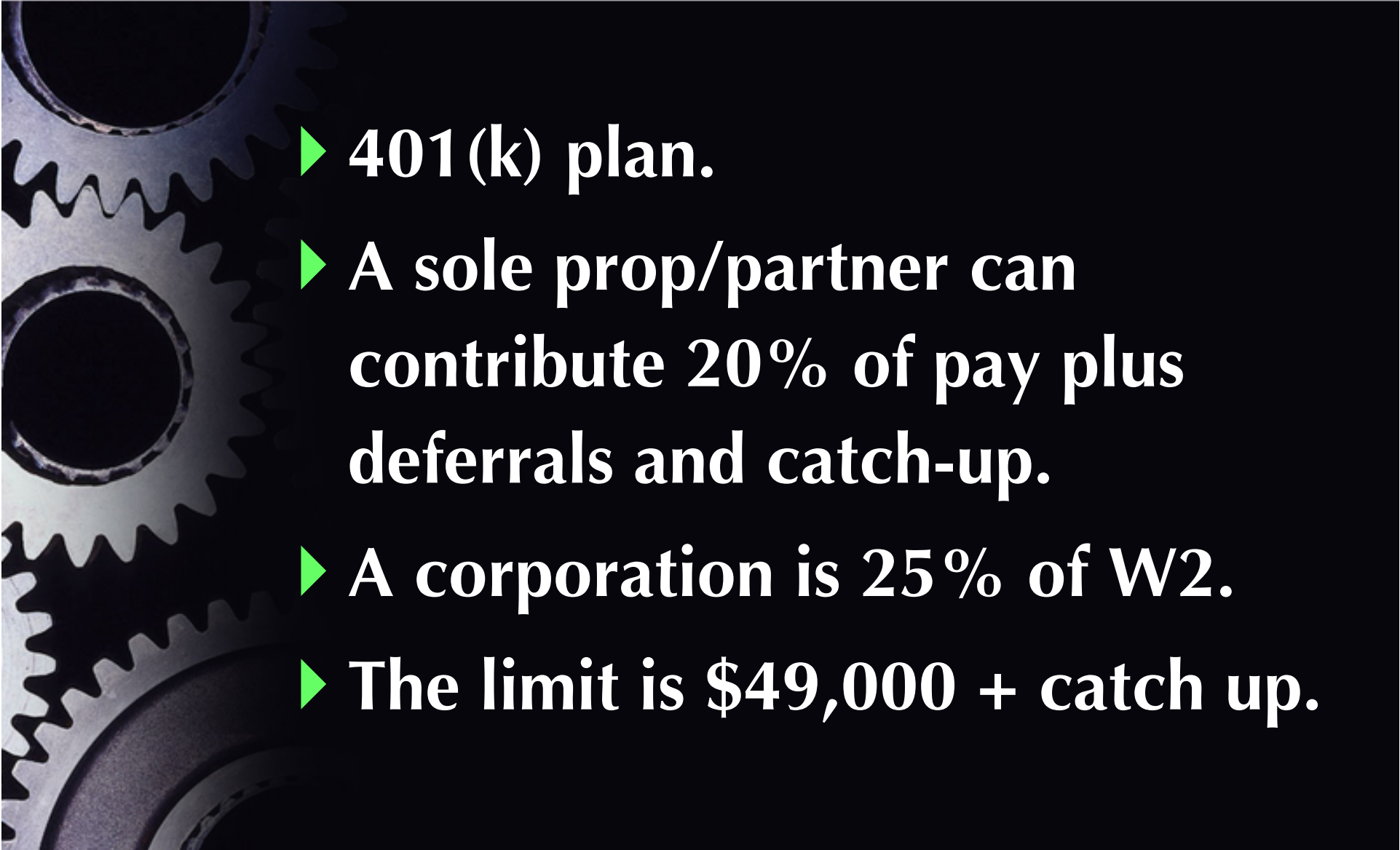
- **Deduction, or**
- **Saving for retirement,**

Two questions:

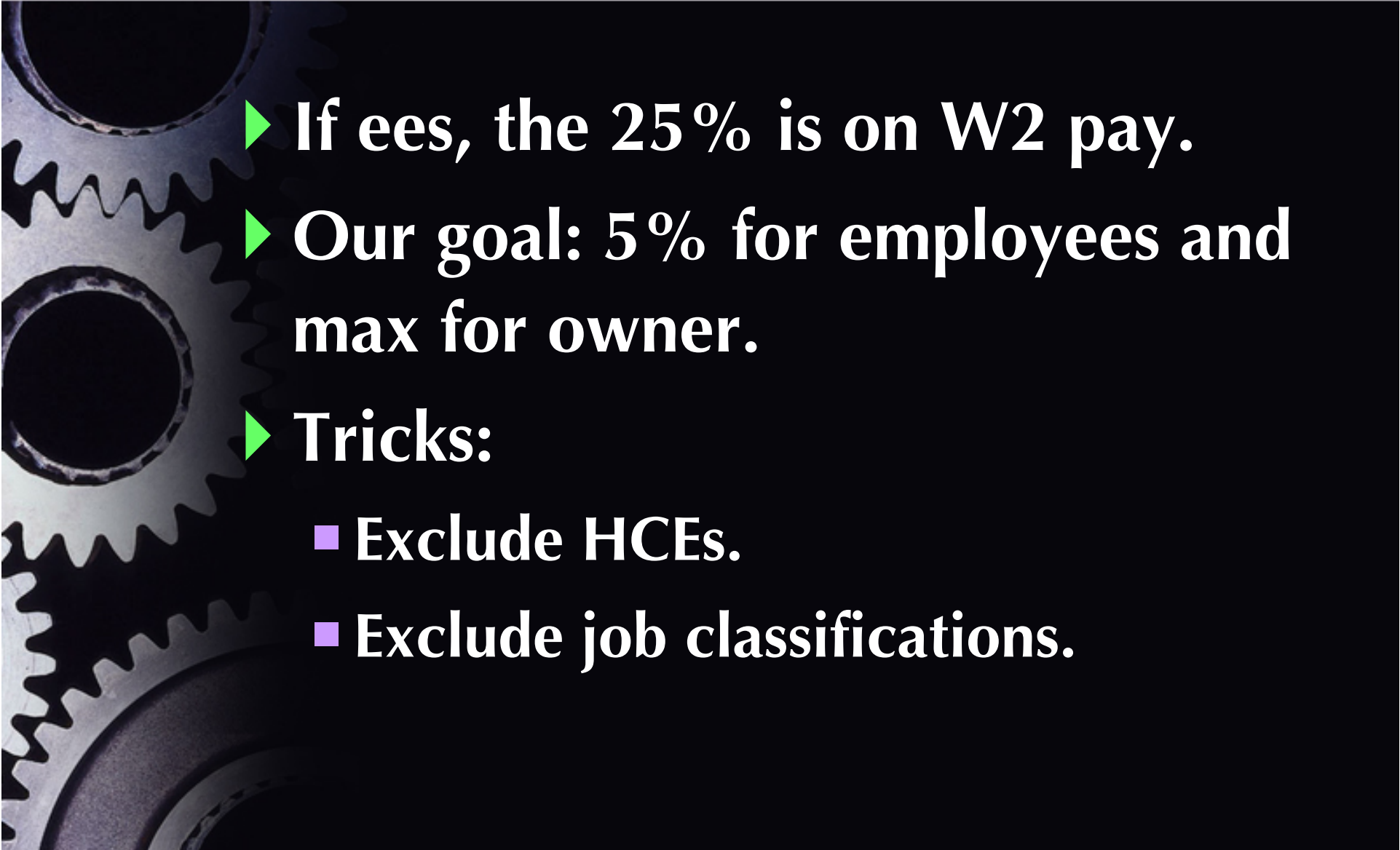
- **How much can he put away?**
- **How consistently?**

▶ **We can work our magic.**

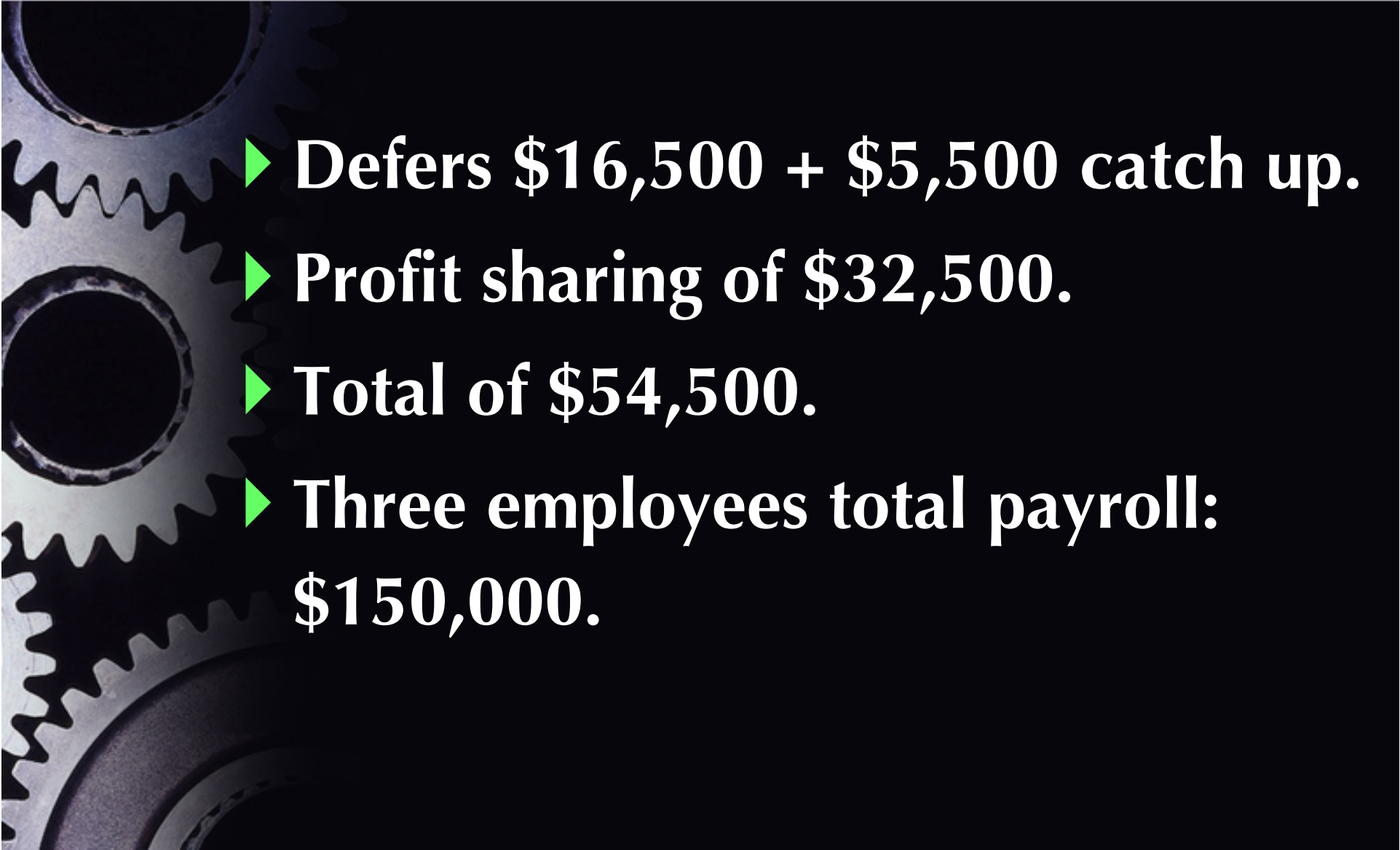
Goal up to \$60,000

- 
- ▶ **401(k) plan.**
 - ▶ **A sole prop/partner can contribute 20% of pay plus deferrals and catch-up.**
 - ▶ **A corporation is 25% of W2.**
 - ▶ **The limit is \$49,000 + catch up.**

Goal up to \$60,000

- 
- ▶ If ees, the 25% is on W2 pay.
 - ▶ Our goal: 5% for employees and max for owner.
 - ▶ Tricks:
 - Exclude HCEs.
 - Exclude job classifications.

Example: Owner Makes \$100,000

- 
- ▶ Defers \$16,500 + \$5,500 catch up.
 - ▶ Profit sharing of \$32,500.
 - ▶ Total of \$54,500.
 - ▶ Three employees total payroll: \$150,000.

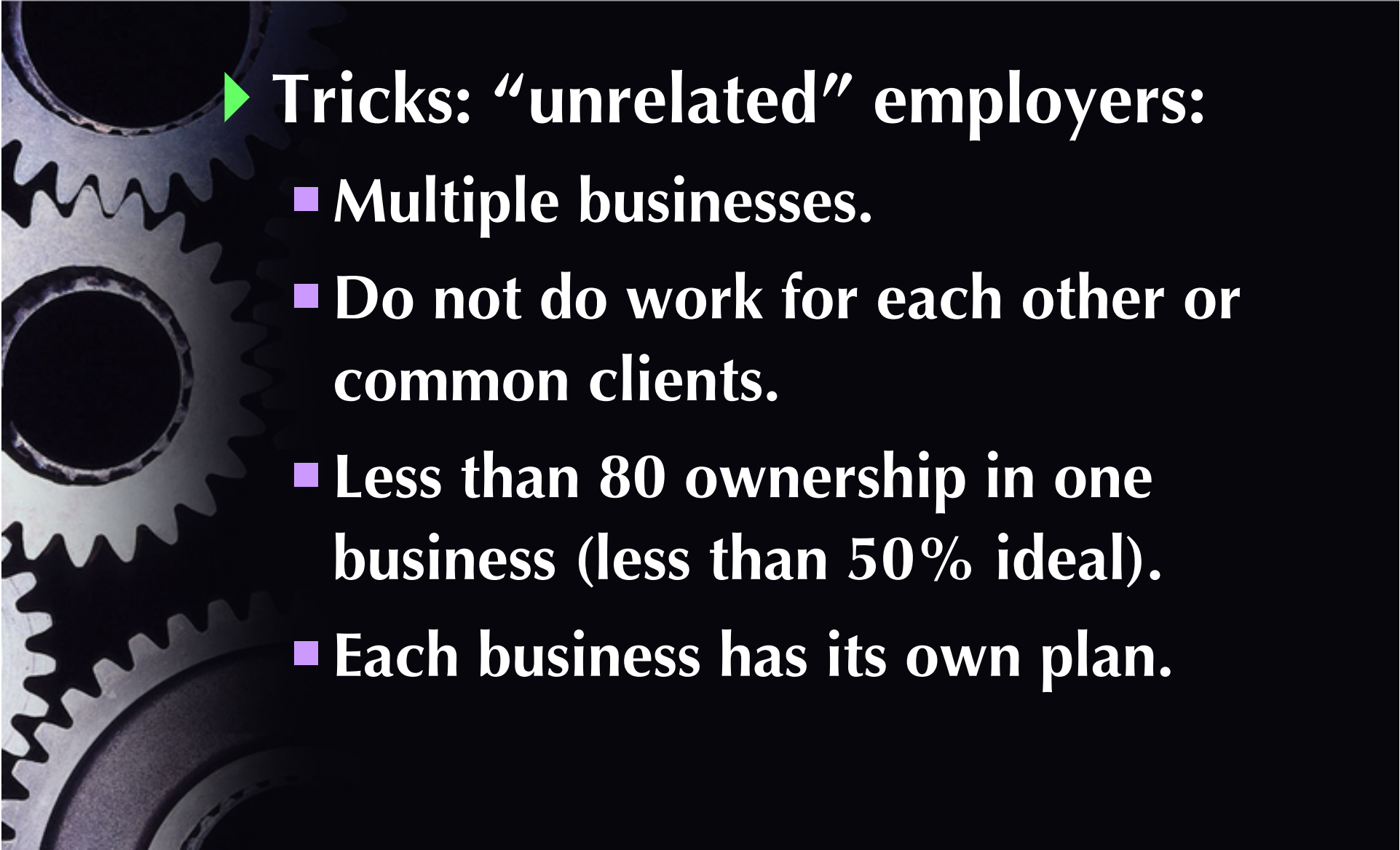
Example: Owner Makes \$100,000

- 
- ▶ Total tax savings at 40% + FICA is over \$25,000.
 - ▶ Employer contribution of \$7,500.

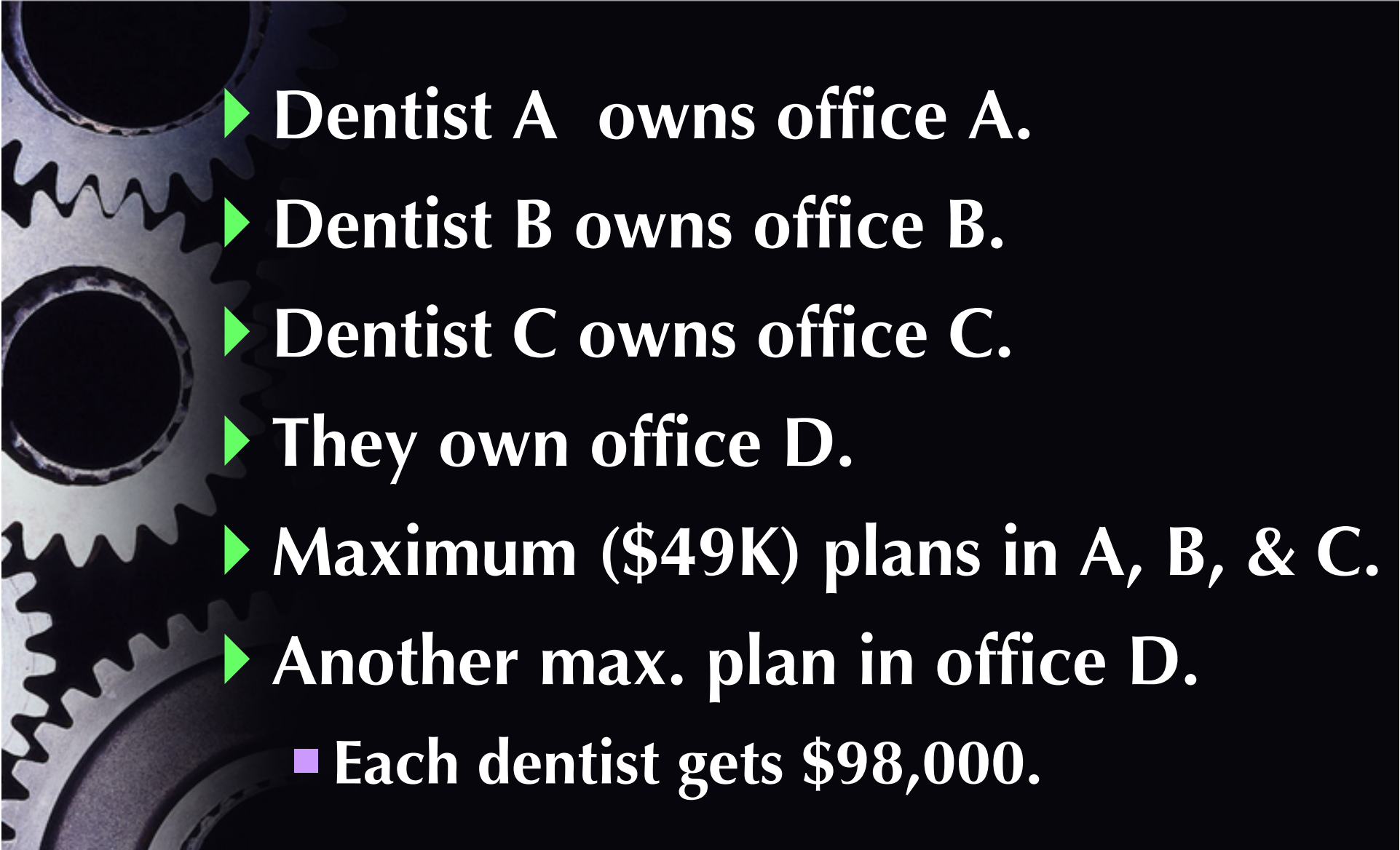
Example

- ▶ **Owner makes \$100,000.**
 - **Total of \$54,500.**
- ▶ **3 employees total payroll \$150,000.**
 - **Employer contribution of \$7,500.**
- ▶ **SEP Comparison.**
 - **Owner gets \$25,000.**
 - **Employee cost \$37,500.**

Special Situations

- 
- ▶ **Tricks: “unrelated” employers:**
 - **Multiple businesses.**
 - **Do not do work for each other or common clients.**
 - **Less than 80 ownership in one business (less than 50% ideal).**
 - **Each business has its own plan.**

Example

- 
- ▶ **Dentist A owns office A.**
 - ▶ **Dentist B owns office B.**
 - ▶ **Dentist C owns office C.**
 - ▶ **They own office D.**
 - ▶ **Maximum (\$49K) plans in A, B, & C.**
 - ▶ **Another max. plan in office D.**
 - **Each dentist gets \$98,000.**

Goal Over \$60,000

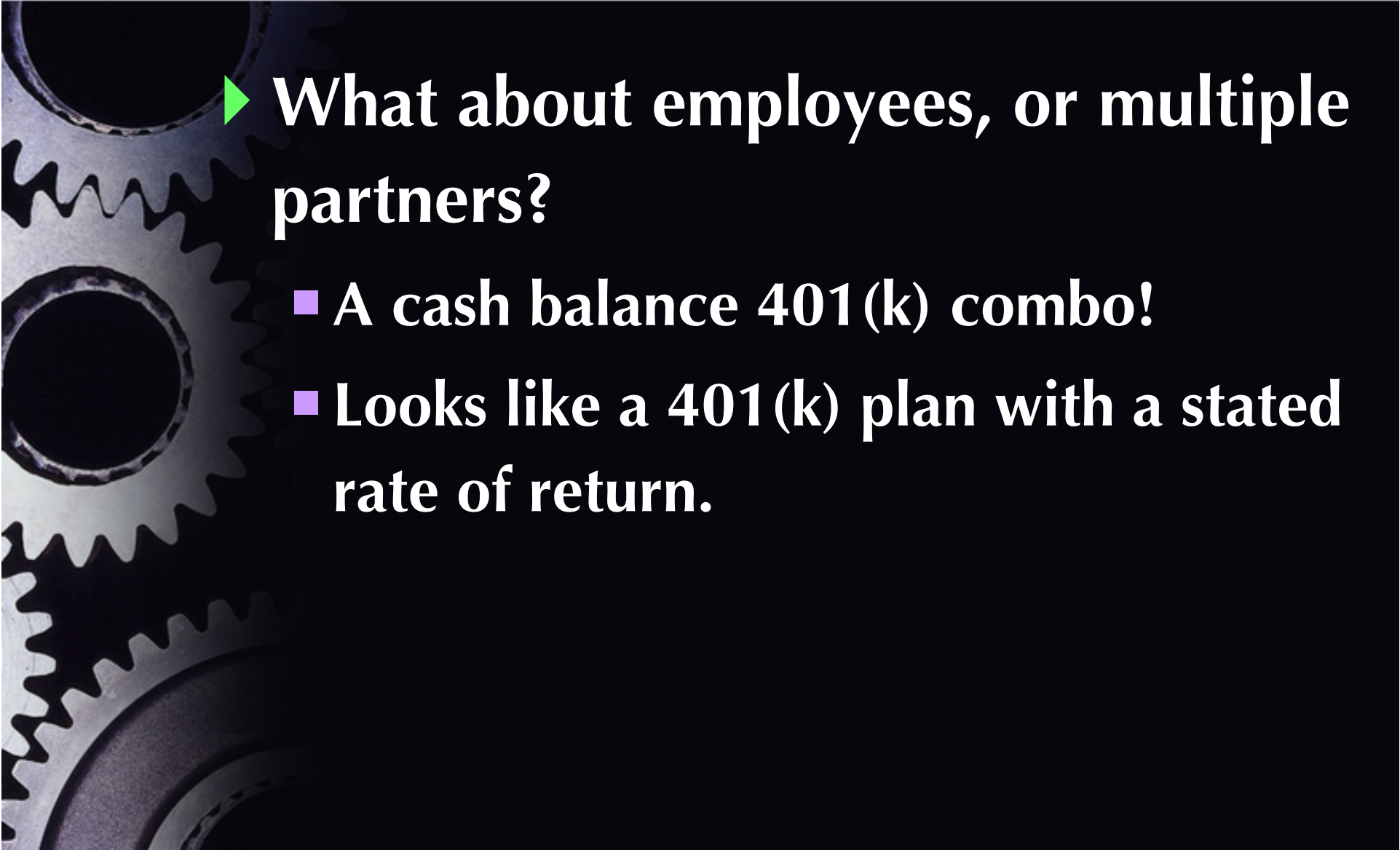
- 
- ▶ **Likely candidate for a DB plan.**
 - **One-person contributions can easily exceed \$100,000—\$200,000.**

Goal Over \$60,000

▶ Need downside flexibility?

- Max. of \$100,000.
- After 1st year, min. of \$50,000.
- Max. of \$100,000 first year and 0 the second requires planning!

Goal over \$60,000: Cash Balance

- 
- ▶ **What about employees, or multiple partners?**
 - **A cash balance 401(k) combo!**
 - **Looks like a 401(k) plan with a stated rate of return.**

Goal over \$60,000: Cash Balance

▶ **Number of CB plans has grown by over 350% in past year!**

■ **Why?**

■ **Save \$\$\$\$ in employee costs!**


Slide 14

NM1

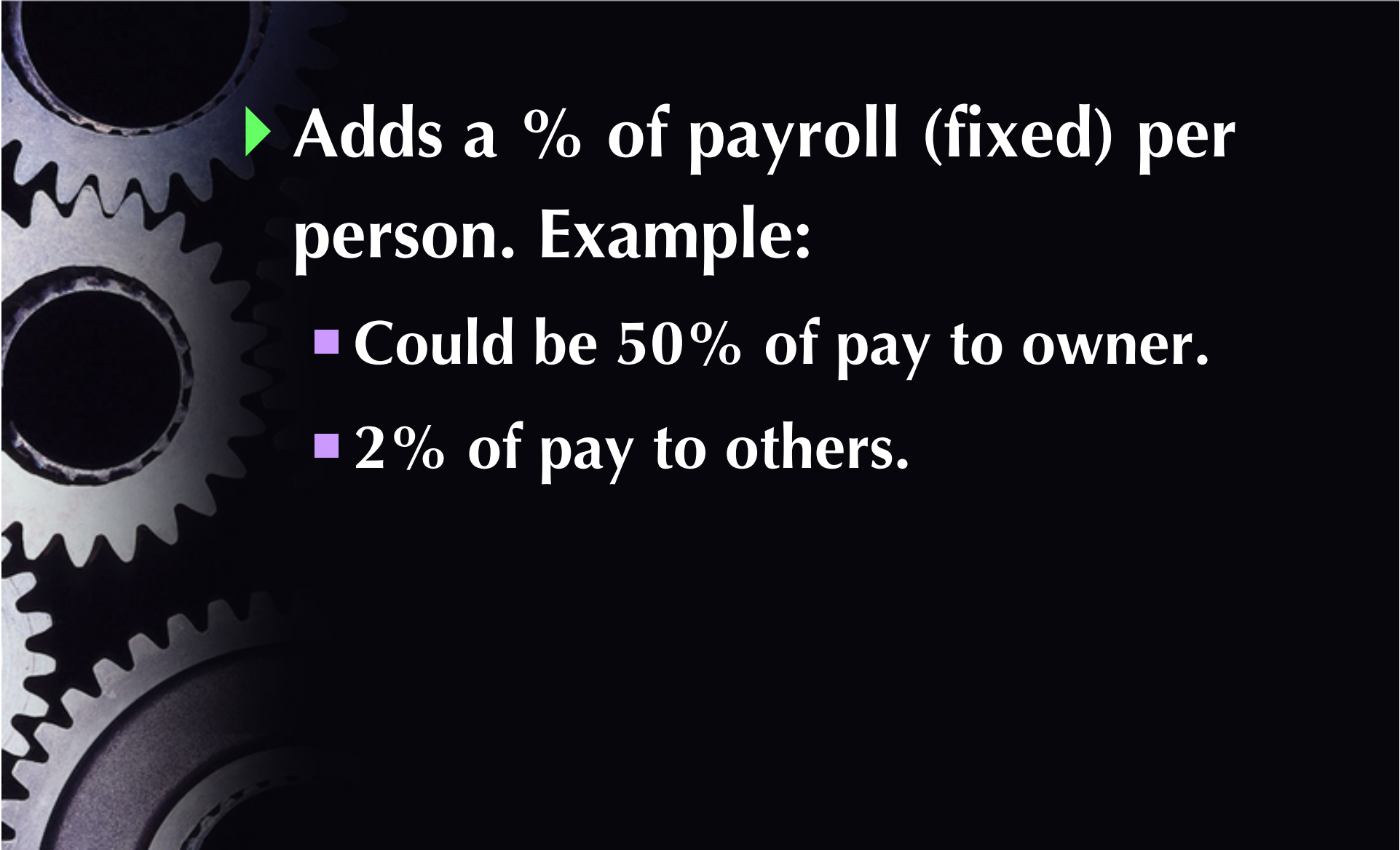
350% since when? I put in one year, but that's not right.

Nancy Michael, 5/6/2010

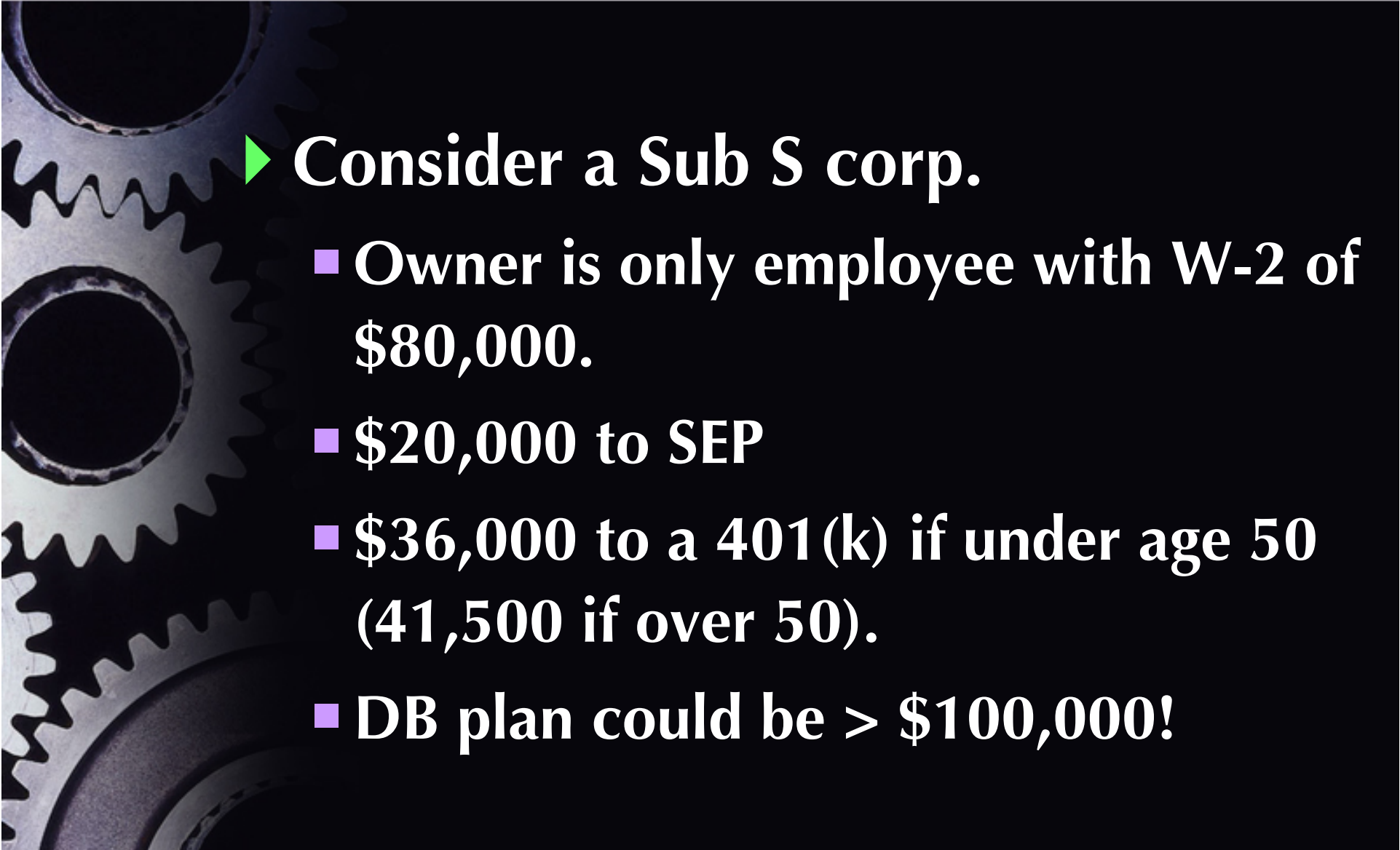
Cash Balance

- 
- ▶ **Specified rate credited to beginning balances.**
 - **Can be treasury or bond rates.**
 - **Equity index.**
 - **Fixed interest.**

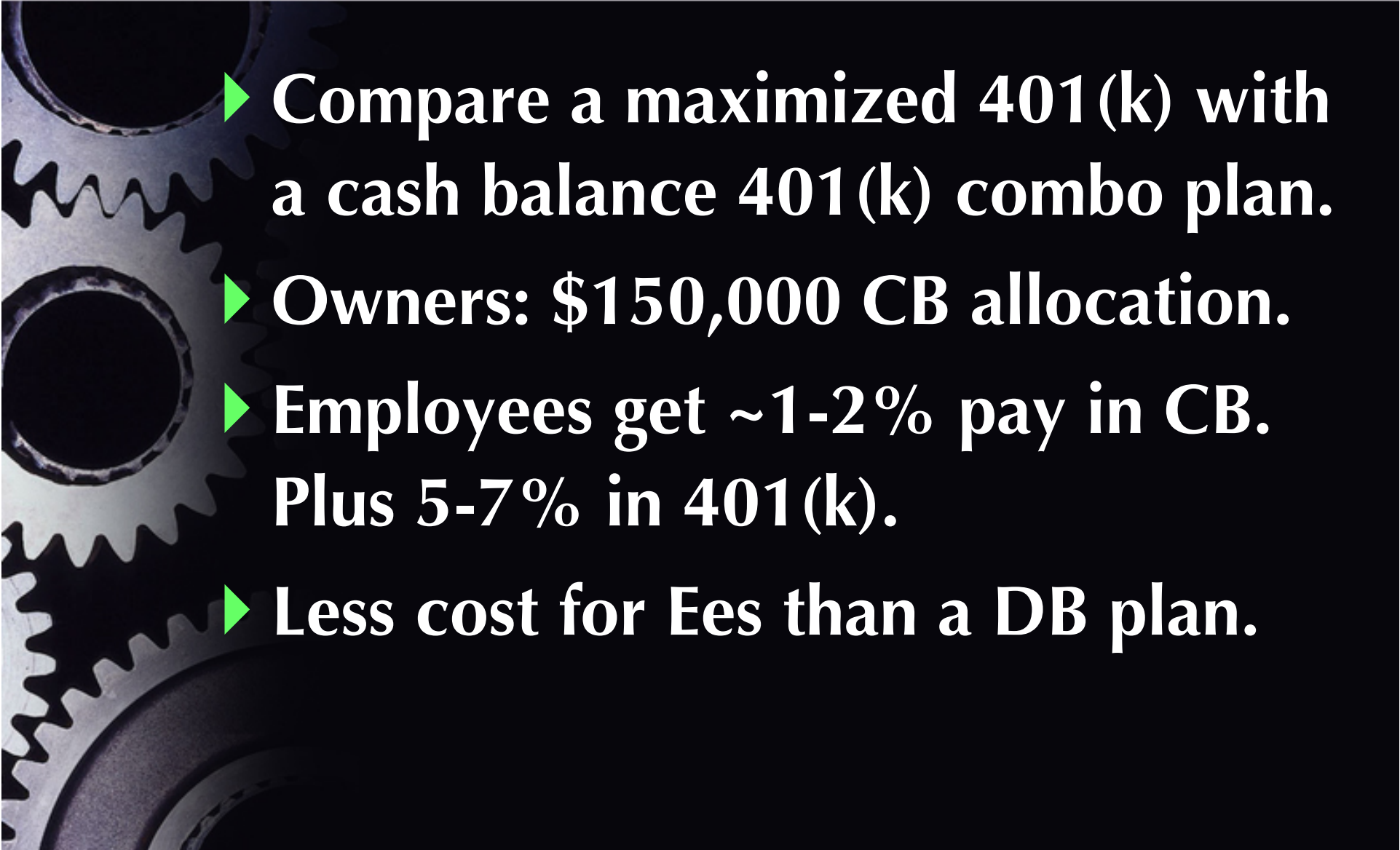
Cash Balance

- 
- ▶ Adds a % of payroll (fixed) per person. Example:
 - Could be 50% of pay to owner.
 - 2% of pay to others.

Other Examples

- 
- ▶ **Consider a Sub S corp.**
 - **Owner is only employee with W-2 of \$80,000.**
 - **\$20,000 to SEP**
 - **\$36,000 to a 401(k) if under age 50 (41,500 if over 50).**
 - **DB plan could be > \$100,000!**

CB/401(k) Combo: A Winner

- 
- ▶ Compare a maximized 401(k) with a cash balance 401(k) combo plan.
 - ▶ Owners: \$150,000 CB allocation.
 - ▶ Employees get ~1-2% pay in CB. Plus 5-7% in 401(k).
 - ▶ Less cost for Ees than a DB plan.

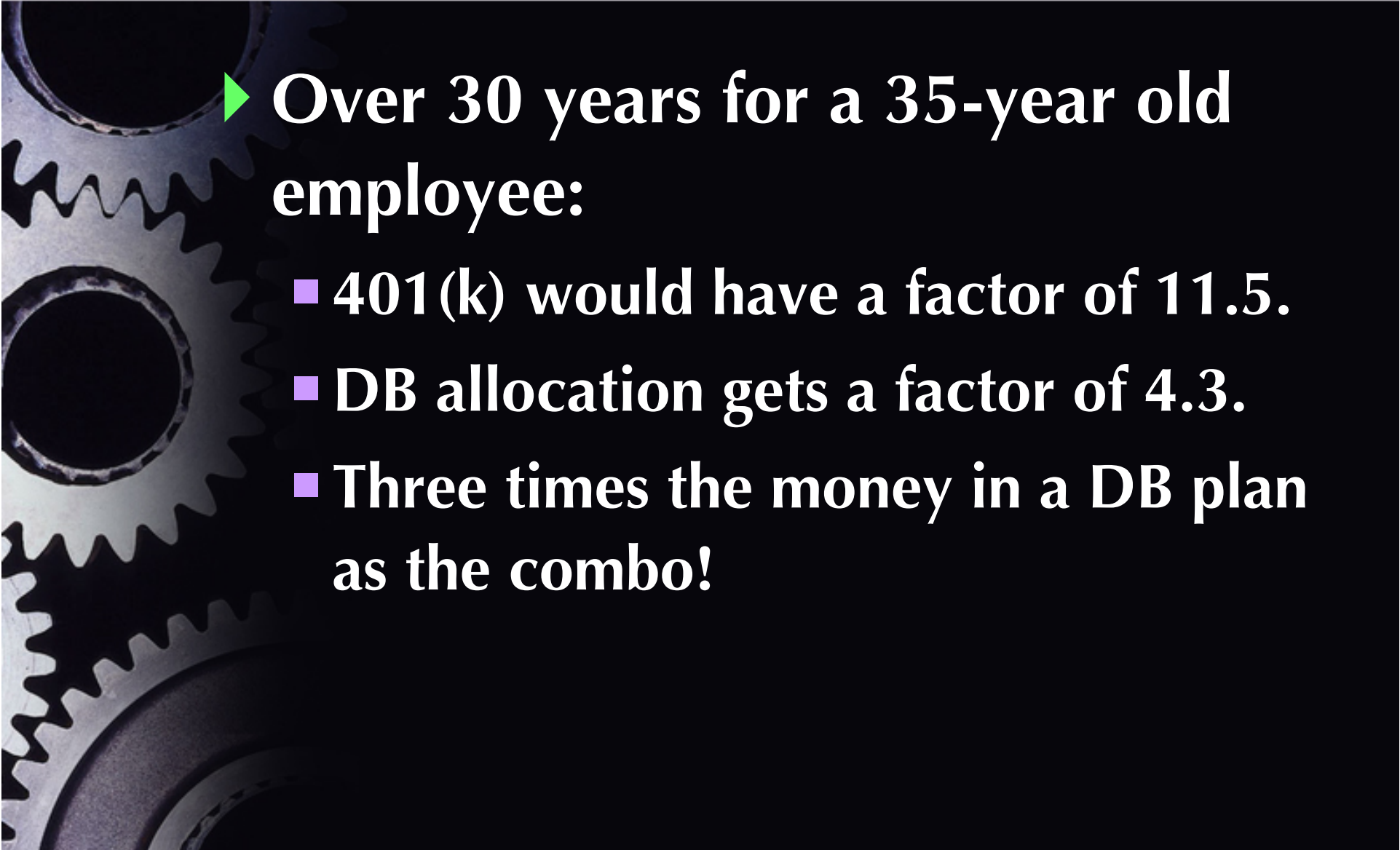
DB/CB Combo

- ▶ Owners over 35 years of age.
- ▶ 1/2 of employees must be at least 10 years younger than the owner.
- ▶ CB plans work best with a 401(k) plan.
 - Why?

Why Does a DB/CB Work?

- ▶ Credit 8.5% earnings to retirement in a 401(k) plan for testing.
- ▶ A DB plan credits about 4-6%.

Why Does a DB/CB Work?

- 
- ▶ **Over 30 years for a 35-year old employee:**
 - **401(k) would have a factor of 11.5.**
 - **DB allocation gets a factor of 4.3.**
 - **Three times the money in a DB plan as the combo!**

Two Doctors and a Nurse

Custom QSERP

- Owner A
- Owner B
- Total Non-Owners



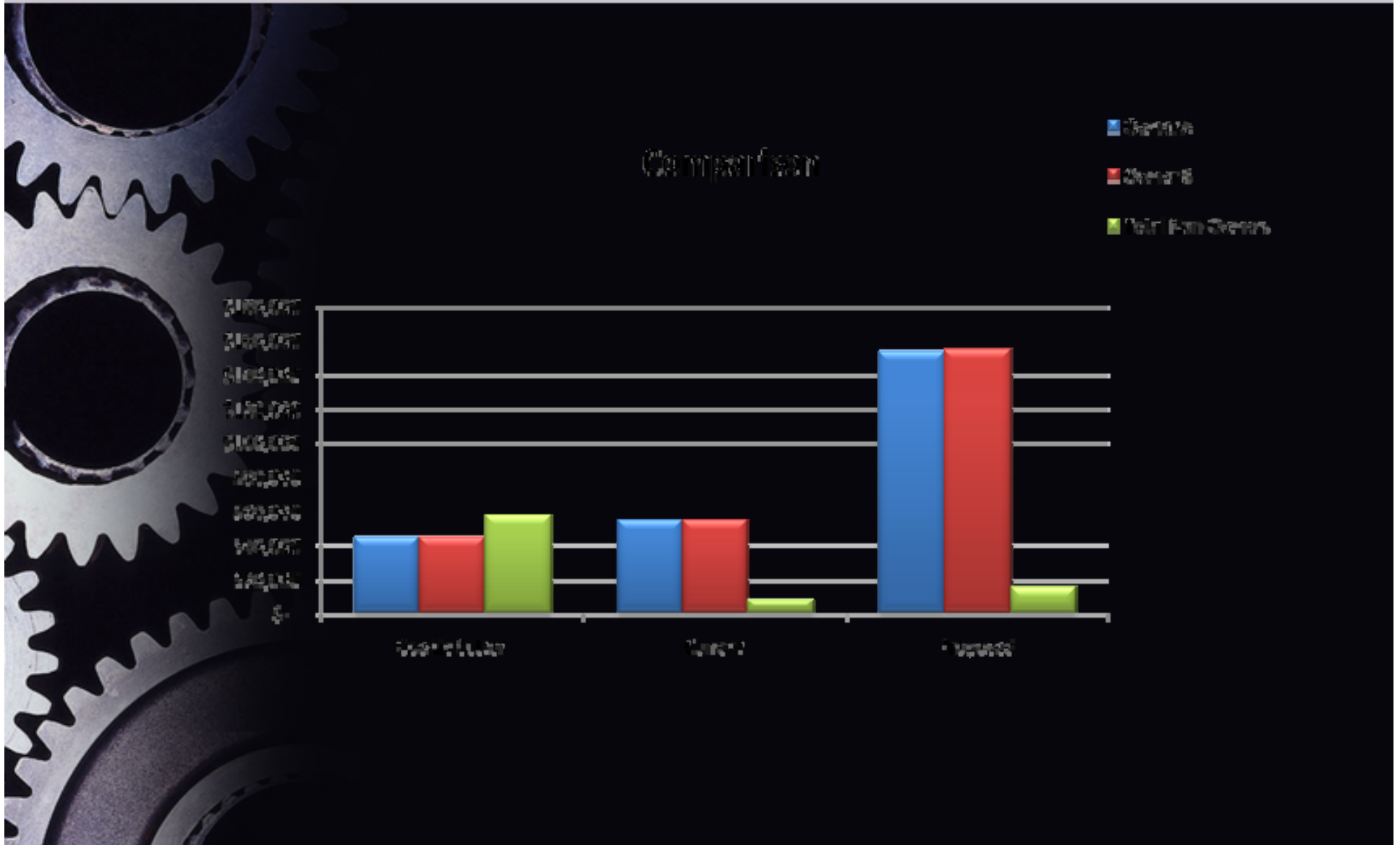
Slide 22

NM2

Won't be able to see the graphic type. Too small. Please fix.

Nancy Michael, 5/6/2010

Comparison of Plan Types



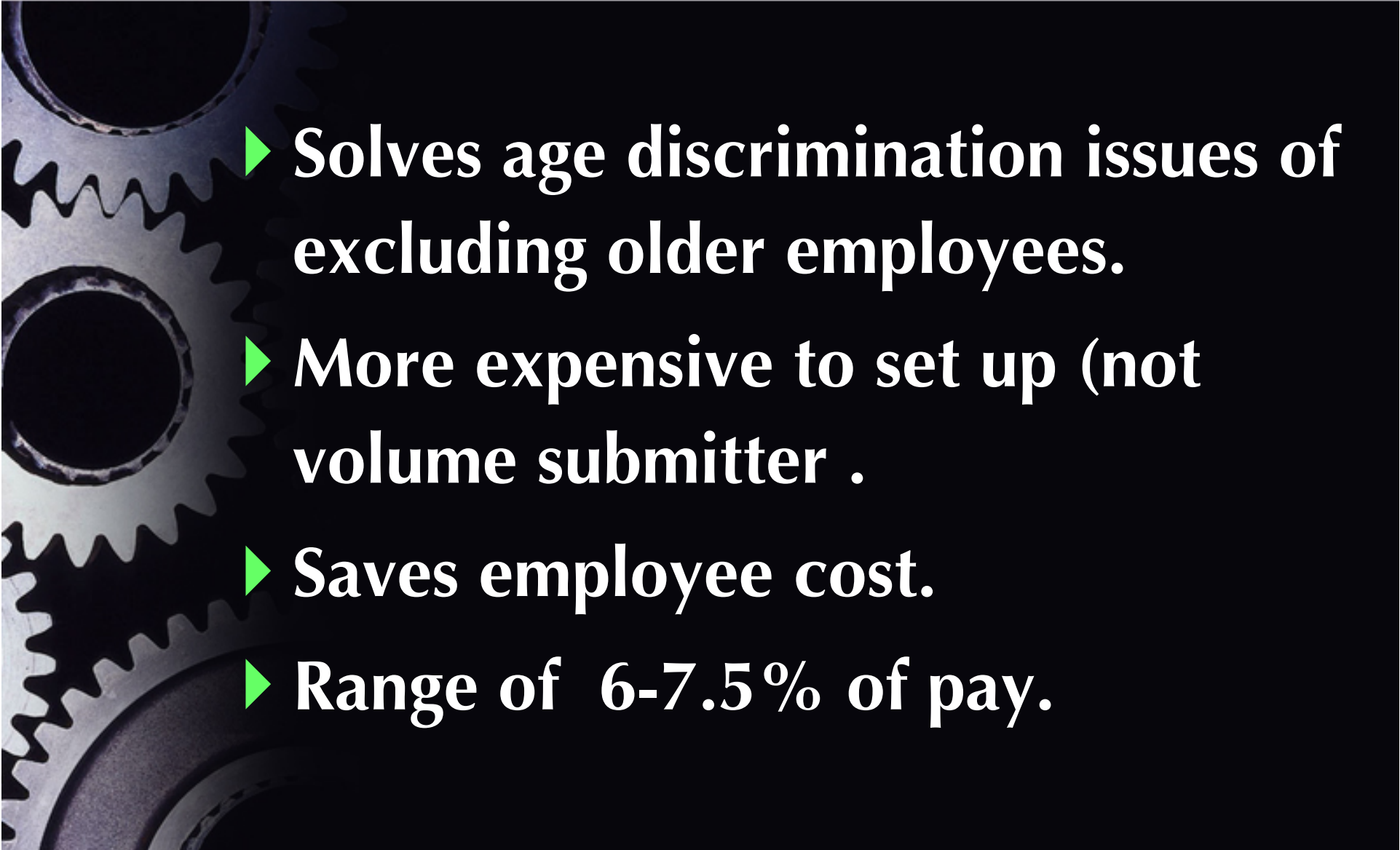
Slide 23

NM3

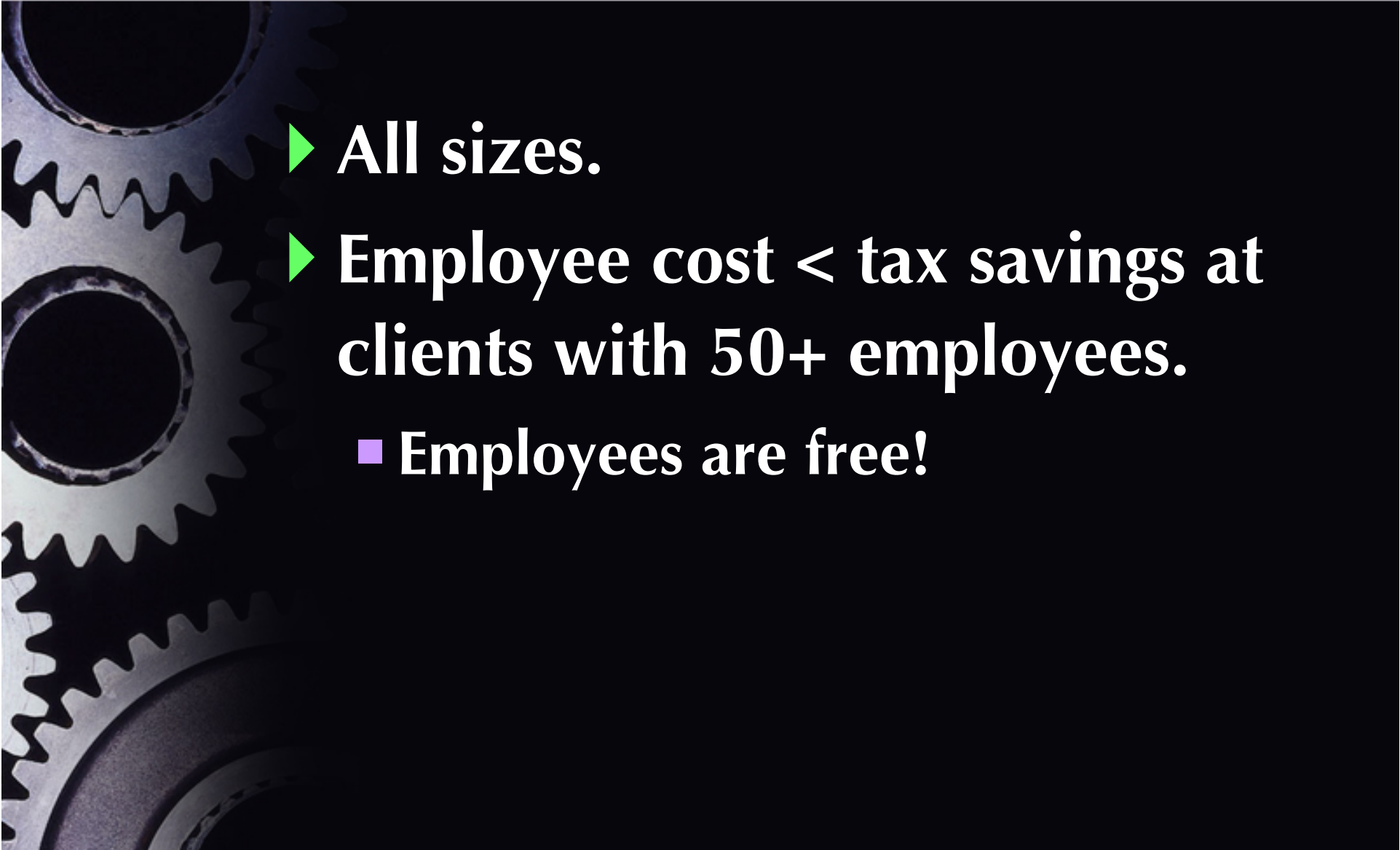
Can't read the graphic--is there type on the right had side?

Nancy Michael, 5/6/2010

Cash Balance Pros and Cons

- 
- ▶ Solves age discrimination issues of excluding older employees.
 - ▶ More expensive to set up (not volume submitter).
 - ▶ Saves employee cost.
 - ▶ Range of 6-7.5% of pay.

What Size Works?

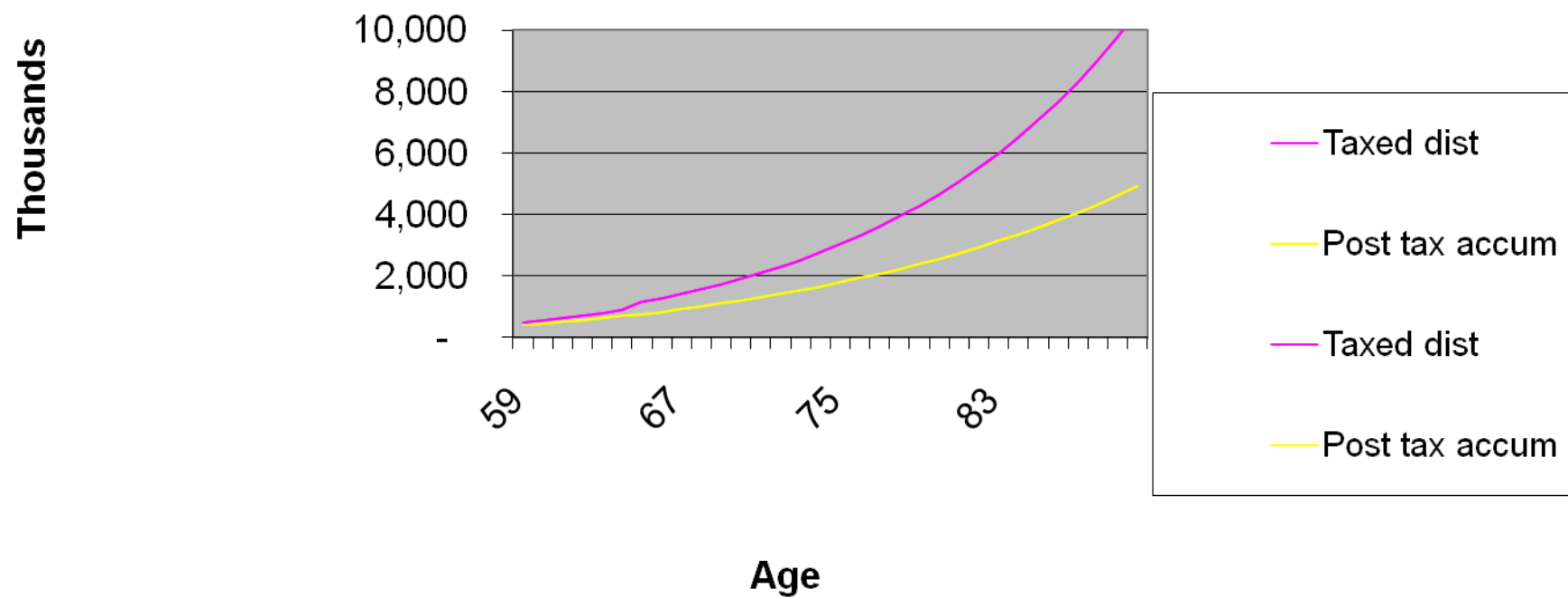
- 
- ▶ **All sizes.**
 - ▶ **Employee cost < tax savings at clients with 50+ employees.**
 - **Employees are free!**

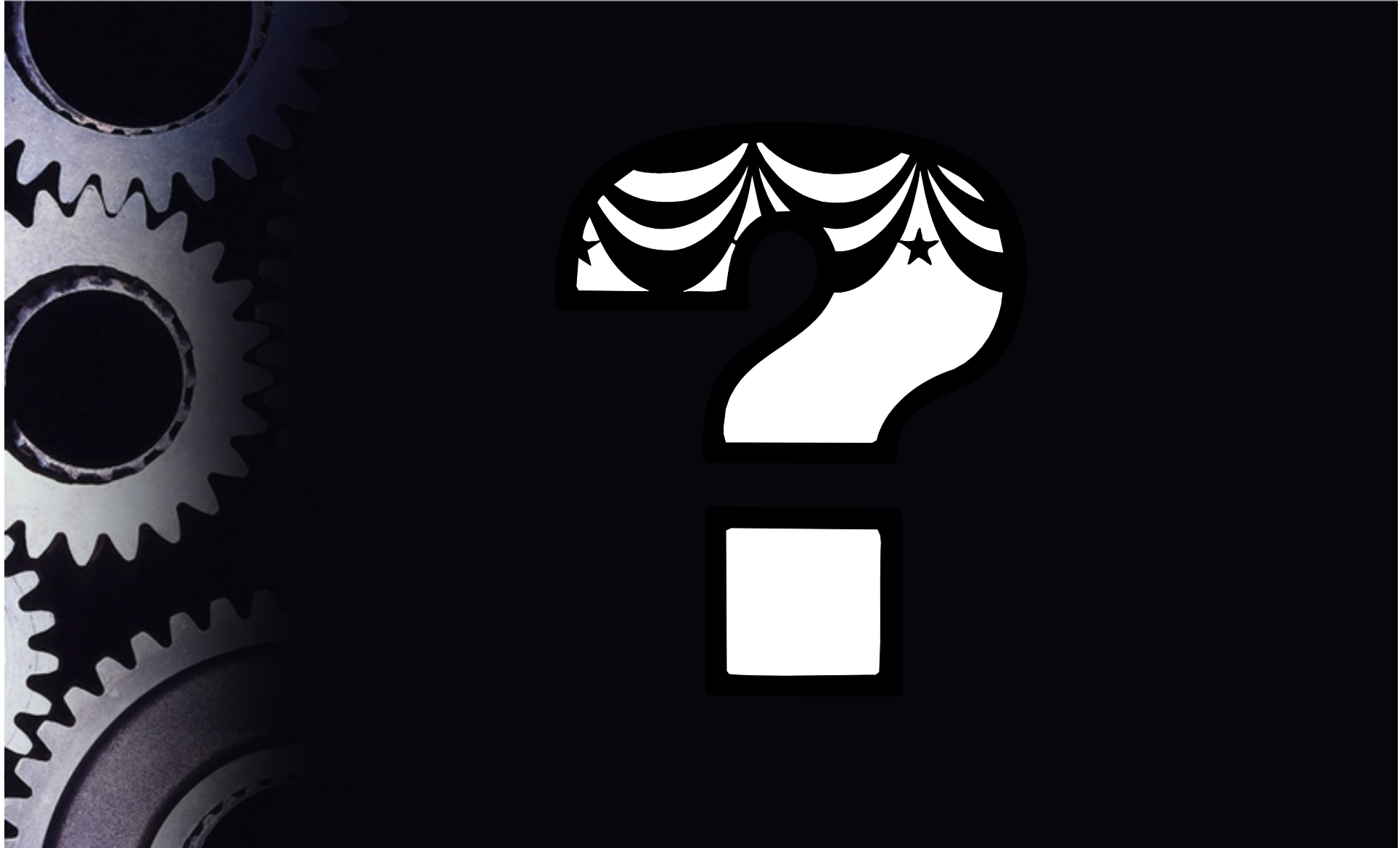
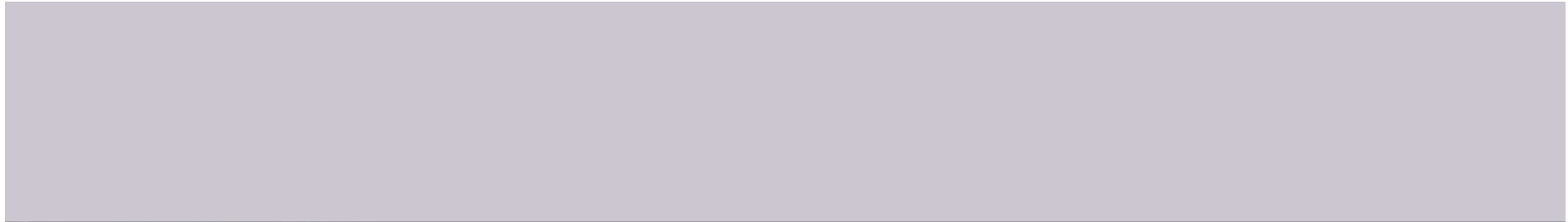
Really



Start Saving Now!

Pre & Post Tax Savings





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