

A Tale of Two Dentists

A Cash Balance Case Study

Joe and Tom, partners in a dental practice, came to us looking for help. Joe had owned the practice for several years, while Tom was a new owner. Both were interested in accumulating wealth for retirement, but they recognized that they were in different places in life.

Scenario 1 (attached)

We started our discussion with their existing safe harbor 401(k)/profit sharing plan. By defining each individual as their own “group” we could allocate the defined contribution maximum to both Joe and Tom. Since Joe is over 50 years old, he is allowed a catch-up contribution of \$6,000. The cost is 7.5% of compensation to the employees. This resulted in 82.1% of all employer money allocated to Joe and Tom.

Scenario 2 (attached)

Joe really wanted to put away more than the defined contribution maximum. Based on the demographics, we found that we could add a cash balance plan and define a contribution credit of the lesser of \$127,000 or 50% of compensation for Joe. Along with this, the staff members would each receive a cash balance contribution credit equal to the lesser of \$1,500 or 3.5% of compensation (total cost is just under \$10,800). At this point, we did not include Tom in the cash balance plan, as he was not looking to increase his savings. This resulted in 87.0% of all employer money allocated to Joe and Tom.

Scenario 3 (attached)

Finally, Tom decided that he wanted to participate in the cash balance plan. Without further increasing the staff cost we found that we could define a cash balance contribution credit for him equal to the lesser of \$6,500 or 4% of compensation. This resulted in 87.3% of all employer money allocated to Joe and Tom.

The costs mentioned above do not consider the tax reduction the company and owners are able to enjoy as a result of sponsoring the retirement plans. The attachment demonstrates the projected current year tax reduction from the above plan scenarios.

Joe and Tom are very happy with the progression of their plan design. Tom understands that if he wants to cut back his contributions in a given year he may simply reduce his deferrals or his profit sharing allocation.

Every company is unique, as are their retirement needs. We listen to your questions, desires, and concerns and will design a plan or plans that best suit your needs.

Contact Us:

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| Scenario 1 | | | | | |
|---|-------------------|------------------|-------------------------|-------------------|-------------------|
| Safe Harbor 401(k)/Profit Sharing Plan | | | | | |
| | Annual Salary | Profit Sharing** | 401(k) EE Contributions | Total | |
| Joe Owner, DDS | \$ 385,000 | \$ 37,000 | \$ 25,000 | \$ 62,000 | |
| Tom Owner, DDS | \$ 167,000 | \$ 37,000 | \$ 19,000 | \$ 56,000 | |
| Owners: | \$ 552,000 | \$ 74,000 | \$ 44,000 | \$ 118,000 | |
| Staff: | \$ 343,500 | \$ 25,763 | \$ 26,200 | \$ 51,963 | |
| Total | \$ 895,500 | \$ 98,763 | \$ 70,200 | \$ 169,963 | |
| Total of company & owner contributions: | | | | \$ 143,763 | |
| Total contributions allocated to owners: | | | | \$ 118,000 | |
| % of company & owner contributions to owners: | | | | 82.1% | |
| Current Year Tax Reduction* | | | | \$ 57,505 | |
| Scenario 2 | | | | | |
| Added Cash Balance Plan | | | | | |
| | Annual Salary | Profit Sharing** | 401(k) EE Contributions | Cash Balance | Total |
| Joe Owner, DDS | \$ 385,000 | \$ 37,000 | \$ 25,000 | \$ 127,000 | \$ 189,000 |
| Tom Owner, DDS | \$ 167,000 | \$ 37,000 | \$ 19,000 | \$ - | \$ 56,000 |
| Owners: | \$ 552,000 | \$ 74,000 | \$ 44,000 | \$ 127,000 | \$ 245,000 |
| Staff: | \$ 343,500 | \$ 25,763 | \$ 26,200 | \$ 10,768 | \$ 62,730 |
| Total | \$ 895,500 | \$ 99,763 | \$ 70,200 | \$ 137,768 | \$ 307,730 |
| Total of company & owner contributions: | | | | | \$ 281,530 |
| Total contributions allocated to owners: | | | | | \$ 245,000 |
| % of company & owner contributions to owners: | | | | | 87.0% |
| Current Year Tax Reduction* | | | | | \$ 112,612 |
| Scenario 3 | | | | | |
| Both Owners in Cash Balance Plan | | | | | |
| | Annual Salary | Profit Sharing** | 401(k) EE Contributions | Cash Balance | Total |
| Joe Owner, DDS | \$ 385,000 | \$ 37,000 | \$ 25,000 | \$ 127,000 | \$ 189,000 |
| Tom Owner, DDS | \$ 167,000 | \$ 37,000 | \$ 19,000 | \$ 6,500 | \$ 62,500 |
| Owners: | \$ 552,000 | \$ 74,000 | \$ 44,000 | \$ 133,500 | \$ 251,500 |
| Staff: | \$ 343,500 | \$ 25,763 | \$ 26,200 | \$ 10,768 | \$ 62,730 |
| Total | \$ 895,500 | \$ 99,763 | \$ 70,200 | \$ 144,268 | \$ 314,230 |
| Total of company & owner contributions: | | | | | \$ 288,030 |
| Total contributions allocated to owners: | | | | | \$ 251,500 |
| % of company & owner contributions to owners: | | | | | 87.3% |
| Current Year Tax Reduction* | | | | | \$ 115,212 |

*Assumes a 40% tax rate; tax savings for owners' contributions are deferred; owners' 401(k) deferrals are included and assumed to be pre-tax.

**Profit Sharing amounts include safe harbor non-elective contributions.

Plan Designs are for illustration purposes only.