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 maximum to both Joe and Tom. Since Joe is over 50 years old, he is allowed a catch-up contribution of $5,500. The cost is 7.5% of compensation to the employees. This resulted in 81% of all employer money allocated to Joe and Tom.

Scenario 2 (attached)

Joe really wants 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 $125,000 or 50% of compensation for Joe. Along with this, we have a cash balance credit for the staff of 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. This resulted in 87% of all employer money allocated to Joe and Tom.

Scenario 3 (attached)

Finally, Tom decides that he wants to participate in the cash balance plan. Without further increasing the staff cost we find that we can define a contribution for him of the lesser of $6,500 or 4% of compensation. This resulted in 87% of all employer money allocated to Joe and Tom.

The costs mentioned above do not consider the tax savings the company and owners are able to take as a result of implementing a retirement plan. The attachment demonstrates the tax savings 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. Our consultants at Benefit Associates, Inc. will sit down with you and will listen to your questions, desires, and concerns and will design a plan or plans that will best suit your needs. Please contact us for more information.

BENEFIT ASSOCIATES INC

Scenario 1

	Annual Salary	Safe Harbor 401(k)/Profit Sharing Plan		
		Profit Sharing**	401(k) EE contributions	Total
Joe Owner, DDS	$ 385,000	$ 34,500	$ 23,000	$ 57,500
Tom Owner, DDS	$ 167,000	$ 34,500	$ 17,500	$ 52,000
Owners:	$ 552,000	$ 69,000	$ 40,500	$ 109,500
Staff:	$ 343,500	$ 25,763	$ 26,200	$ 51,963
Total	$ 895,500	$ 94,763	$ 66,700	$ 161,463
Total of company & owner contributions:				$ 135,263
Total contributions allocated to owners:				$ 109,500
% of company & owner contributions to owners:				81%
Estimated Tax Savings*				$ 47,609

Scenario 2

	Annual Salary	Added Cash Balance Plan			
		Profit Sharing**	401(k) EE contributions	Cash Balance	Total
Joe Owner, DDS	$ 385,000	$ 34,500	$ 23,000	$ 125,000	$ 182,500
Tom Owner, DDS	$ 167,000	$ 34,500	$ 17,500	$ -	$ 52,000
Owners:	$ 552,000	$ 69,000	$ 40,500	$ 125,000	$ 234,500
Staff:	$ 343,500	$ 25,763	$ 26,200	$ 10,768	$ 62,730
Total	$ 895,500	$ 94,763	$ 66,700	$ 135,768	$ 297,230
Total of company & owner contributions:					$ 271,030
Total contributions allocated to owners:					$ 234,500
% of company & owner contributions to owners:					87%
Estimated Tax Savings*					$ 93,770

Scenario 3

	Annual Salary	Both Owners in Cash Balance Plan			
		Profit Sharing**	401(k) EE contributions	Cash Balance	Total
Joe Owner, DDS	$ 385,000	$ 34,500	$ 23,000	$ 125,000	$ 182,500
Tom Owner, DDS	$ 167,000	$ 34,500	$ 17,500	$ 6,500	$ 58,500
Owners:	$ 552,000	$ 69,000	$ 40,500	$ 131,500	$ 241,000
Staff:	$ 343,500	$ 25,763	$ 26,200	$ 10,768	$ 62,730
Total	$ 895,500	$ 94,763	$ 66,700	$ 142,268	$ 303,730
Total of company & owner contributions:					$ 277,530
Total contributions allocated to owners:					$ 241,000
% of company & owner contributions to owners:					87%
Estimated Tax Savings*					$ 95,980

* Assumes 34% company tax rate & 38% owner individual tax rate.
** Profit Sharing amounts include safe harbor non-elective contributions.
Plan Designs are for illustration purposes only.