

CASE STUDY

Maximizing Retirement Savings for the Entire Staff

Two owners/partners of a personal injury law firm are interested in a retirement savings benefit that helps them meet their long-term goals and rewards key staff members, too.

Each owner’s annual pay is above the 2022 annual compensation cap of \$305,000, which is the maximum amount allowed under the Internal Revenue Code for retirement plan purposes. Their staff includes several highly compensated attorneys who earn at least \$135,000 — and the average salary of their other staff members (paralegals, administrative, etc.) is \$60,000.

The plan objective is to maximize retirement savings for the owners, exclude additional contributions for the other highly compensated employees who negotiate their compensation package, and provide a meaningful benefit to the administrative staff.

How does a cash balance plan can help?

Install a 401(k)/cash balance combo plan, where the 401(k) allows contribution flexibility of salary deferrals with a discretionary profit-sharing contribution for all employees. Then, couple it with a cash balance plan that maximizes owner contributions, excludes the other highly compensated employees and provides an additional meaningful benefit to the administrative staff.

In addition to receiving the 401(k) contributions, the cash balance plan will allow each owner to accumulate \$152,500 in cash balance plan tax-deferred contributions at a cost of \$21,000 for their entire administrative staff.

With the 401(k) and cash balance plans expertly designed, the attorneys can meet their retirement savings goals and reward their staff with these contribution scenarios.

	OWNER EMPLOYEES (2)	HIGHLY COMPENSATED EMPLOYEES (15)	QUALIFIED STAFF (10)
ANNUAL PAY	\$305,000 each	> \$135,000	\$60,000 Avg.
401(K) DEFERRAL	\$20,500 + catch-up if applicable	\$20,500 + catch-up if applicable	\$20,500 + catch-up if applicable
3% SAFE HARBOR CONTRIBUTION	\$9,150	\$0 excluded	\$1,800 on average
401(k) PROFIT SHARING CONTRIBUTION	\$0 excluded	\$0 excluded	\$1,200 2% of pay
CASH BALANCE	\$152,500 50% of salary	\$0 excluded	\$2,100 3.5% of pay
TOTAL EMPLOYER CONTRIBUTION	\$182,150 x 2	\$0	\$5,100 x 10

If you are interested in learning more about how a cash balance plan may help your organization, our sales experts and team of actuaries and analysts can help you decide.

The examples above are for illustration purposes only and represent concepts that have been used in actual client situations. Rates of investment returns are illustrative only. Each plan Definiti designs will be based on employer objectives, actual employee data and current regulations and limitations.