

# **TWO PLANS ARE BETTER THAN ONE**

## **HOW PPA'06 ALLOWS BUSINESSES TO HAVE THEIR CAKE AND EAT IT TOO**

- To make large deductible contributions but still be able to make little or no contribution in a slow year
- To provide large accumulations for the owner or other favored employees, adequate pensions for long service employees will minimizing the cost on other employees
- To minimize investment risk to the sponsor

For years it has been known that while both Defined Benefit and Defined Contribution plans had their advantages they, also, had their limitations. While some of these limitations could be overcome with dual plan (i.e. Defined Benefit and Defined Contribution) programs, these dual plan programs had their own limitations. PPA '06 went a long way to eliminate many Defined Benefit (particularly Cash Balance Plans) and dual plan limitations.

### **DEFINED BENEFIT PLANS**

- Allow for large deductions
- Provide Adequate Benefits for long service employees

But

- allow for limited flexibility in funding
- can have runaway costs when it is based on a final average pay formula
- can over pay for short service older employees or even some long service older employees
- can have unpredictable lump sum payout amounts due to varying required interest rates
- be forced to pay PBGC premiums for which there is no desire to or likelihood to ever collect
- be hard to understand

Cash Balance Defined Benefit Plans eliminates the problem of runaway cost, over paying on some older employers, unpredictable lumps and difficulty in understanding. However, until very recently there has been a cloud related to legal questions involving age discrimination and conversions from regular Defined Benefit Plans.

### **DEFINED CONTRIBUTIONS**

- almost always some combination of 401(k)/Profit Sharing Plan
- Allow for a lot of funding flexibility from one year to the next
- Can eliminate employer investment risk through participant direction
- Get employees to contribute toward their own retirement

But

- limit how much can be put away for key employees – particularly those over age 40.
- don't usually guarantee adequate benefits for long service employees

## **EXCERPT FROM JOHN AGATSTON'S ARTICLE ON THE PENSION PROTECTION ACT OF 2006**

PPA'06, plus the maturing of the 401(k) industry, the clarification of the anti-discrimination rules, and improved correction programs with less severe corrections for honest mistakes have, I believe, made the qualified market more attractive to business owners and their accountants and other advisors. In particular, the small plan market has benefited in several areas from Congress trying to help the big companies to get on sound actuarial funding. These advantages include (but are not limited to):

1. **The ability to over-fund defined benefit plans in good years.**  
For plans that have been in place for a few years we may find that the maximum deductible contribution based on the new 50% plus buffer rules (with an initial phase in with 150% of current liability in 2006) exceeds most client's needs even in a very good year. For new plans, the two year wait for over-funding on the highly compensated employee takes a little more strategizing.
2. **The greater freedom to design dual plans.**  
Now we have a very limited obstacle with the 25% dual plan limit. There is the new 6% rule for all plans the next two years and no combined plan limit for plans subject to PBGC starting in 2008.
3. **The ability to comfortably add Cash Balance Plans to our design routine.**  
The clarification on what constitutes age discrimination for hybrid plans such as Cash Balance Plans as well as clarification on the wear away rules in the case of conversion to Cash Balance Plans allow these plans to be a serious part of the tools that can be used in plan design. (The favorable court rulings on Cash Balance coming within days of PPA'06 also helped.) The three things I particularly like about Cash Balance Plans are:
  - a. They are generally career average plans and so they have a reduced "run away" liability risk when compared with final average pay defined benefit plans.
  - b. The account balance aspects allows for them to be more easily understood by participants who are used to Defined Contribution Plans.
  - c. Even though they are trustee-directed, they appear to the participant to be fixed income, hence, encouraging them to allocate a higher portion of their 401(k) balances to equities. Also, they allow a way to provide for extra amounts for longer service, older people without having to contribute more for shorter service older employees.
  - d. There is not the variation in lump sum payouts due to varying 30 year treasury interest rates.
4. The ability by statute to count pre-participation compensation in the determination of the 415 limit.
5. The limit of the PBGC premium for plans with fewer than 25 lives.

These last two advantages were brought about, in part, through the lobbying efforts of ASPPA.

With all these new provisions, business owners can now:

1. Both contribute and deduct higher amounts and have higher accumulations at retirement.
2. Effectively use 401(k)/Profit Sharing Plans along with Defined Benefit Plans to effectively favor long service and key employees while limiting costs for other employees. For example, the changes in Code Section 404(a)(7) make it possible to design safe harbor 401(k)'s while still maximizing the contribution for even a very small business owner.
3. "Fund First and Promise Later" – meaning they can use the new buffer rules to fund more than the promised benefits and then increase the benefits in later years when they know they can easily be afforded.

Case Study #1

**MAXIMIZING CONTRIBUTIONS FOR YOUNG SUCCESSFUL COUPLE**

**2006**

	Age	Pay	Safe Harbor 401(k)/ Profit Sharing Contribution	% of Pay <sup>1</sup>	Cash Balance Equivalent Contribution	% of Pay	Total Contribution	% of Pay	% of Total
Young Husband	38	220,000	28,200 <sup>2</sup>	12.8%	58,000	26.4%	86,200	39.2%	51.4%
Young Wife	36	220,000	28,200	12.8%	52,000	23.6%	80,200	36.5%	47.8%
Younger Sister	25	18,000	1,080	6.0%	360	2.0%	1,440	8.0%	0.9%
Total employer contri.		458,000	57,480		110,360		167,840 137,840 <sup>3</sup>		100.0%

**2007**

	Age	Pay	Safe Harbor 401(k)/ Profit Sharing Contribution	% of Pay	Cash Balance Equivalent Contribution	% of Pay	Total Contribution	% of Pay	% of Total
Young Husband	38	225,000	29,000	12.9%	63,771	28.3%	92,771	41.2%	51.3%
Young Wife	36	225,000	29,000	12.9%	57,600	25.6%	86,600	38.5%	47.9%
Younger Sister	25	18,000	1,080	6.0%	360	2.0%	1,440	0.6%	0.8%
Total		468,000 <sup>4</sup>	59,080		121,731		180,811		100.0%

**2008**

	Age	Pay	Safe Harbor 401(k)/ Profit Sharing Contribution	% of Pay	Cash Balance Equivalent Contribution	% of Pay	Total Contribution	% of Pay	% of Total
Young Husband	38	225,000	45,000	20.0%	66,857	29.7%	111,857	49.7%	50.8%
Young Wife	36	225,000	45,000	20.0%	60,686	27.0%	105,686	47.0%	48.0%
Younger Sister	25	18,000	2,160	12.0%	360	2.0%	2,520	14.0%	1.1%
<b>Buffer Funding</b>					118,805		118,805	25.4%	100.0%
<b>Total</b>		468,000	92,160		246,708		338,868		

**Case Study #2**  
**page 1**  
**Maxed Out Safe Harbor 401(k) Profit Sharing Plan**

**PROFIT SHARING/ 401(k) Only**

Name	Current Age	Service	Eligible Pay	HCE	3% Safe Harbor	401(k) Deferral Owner	Year End Profit Sharing Contribution	Total Contrib.	% of Pay
1 Owner	52	32	220,000.00	1	6,600	20,000	22,400	49,000	22.27%
2 Non_Owner HCE #1	43	11	150,000.00	1	4,500		3,000	7,500	5.00%
3 Older Long Service #1	59	28	36,000.00		1,080		720	1,800	5.00%
4 Older Short Service	57	4	30,000.00		900		600	1,500	5.00%
5 Other #1	38	5	75,000.00		2,250		1,500	3,750	5.00%
6 Other #2	33	4	47,500.00		1,425		950	2,375	5.00%
7 Other #3	24	2	27,500.00		825		550	1,375	5.00%
8 Other #4	26	2	24,000.00		720		480	1,200	5.00%
9 Other #5	24	2	20,000.00		600		400	1,000	5.00%
10 Other #6	27	5	45,000.00		1,350		900	2,250	5.00%
11 Other #7	43	6	55,000.00		1,650		1,100	2,750	5.00%
Cash Balance Pre-Funding									
			Total		21,900.00	20,000.00	32,600.00	74,500.00	
			Owner Amount		6,600.00	20,000.00	22,400.00	49,000.00	
			Owner % of Total		30.14%	100.00%	68.71%	65.77%	

Case Study #2  
page 2  
Cash Balance Add-on Alternative

**PROFIT SHARING/ 401(k) Portion**

**CASH BALANCE PORTION**

Name	Current Age	Service	Eligible Pay	HCE	Safe Harbor	401(k) Deferral Owner	Year End Profit Sharing Contribution	Total Profit Sharing/K Contrib.	Total Profit Sharing/K Contrib. % of Pay	New 6% Test Total Employer Profit Sharing	Cash Balance Add-On % of Pay	Cash Balance Add-On Contribution	Total		Add-On Cash Balance Marginal Cost	
													Total Contrib. Both Plans	Employer Contrib. Plus Owner Deferral		Total Employer Contrib. Both Plans % of Pay
1 Owner	52	32	220,000.00	1		20,000	10,000	30,000	13.64%	10,000	63.00%	160,000	190,000	190,000	86.4%	141,000
2 Non_Owner HCE #1	43	11	150,000.00	1	4,500		3,000	7,500	5.00%	7,500	0.00%	-	7,500	7,500	5.0%	-
3 Older Long Service #1	59	28	36,000.00		1,080		1,170	2,250	6.25%	2,250	10.00%	3,600	5,850	5,850	16.3%	4,050
4 Older Short Service	57	4	30,000.00		900		975	1,875	6.25%	1,875	2.00%	600	2,475	2,475	8.3%	975
5 Other #1	38	5	75,000.00		2,250		2,438	4,688	6.25%	4,688	2.00%	1,500	6,188	6,188	8.3%	2,438
6 Other #2	33	4	47,500.00		1,425		1,544	2,969	6.25%	2,969	2.00%	950	3,919	3,919	8.3%	1,544
7 Other #3	24	2	27,500.00		825		894	1,719	6.25%	1,719	2.00%	550	2,269	2,269	8.3%	894
8 Other #4	26	2	24,000.00		720		780	1,500	6.25%	1,500	2.00%	480	1,980	1,980	8.3%	780
9 Other #5	24	2	20,000.00		600		650	1,250	6.25%	1,250	2.00%	400	1,650	1,650	8.3%	650
10 Other #6	27	5	45,000.00		1,350		1,463	2,813	6.25%	2,813	2.00%	900	3,713	3,713	8.3%	1,463
11 Other #7	43	6	55,000.00		1,650		1,788	3,438	6.25%	3,438	2.00%	1,100	4,538	4,538	8.3%	1,788
Cash Balance Pre-Funding												12,000	12,000	12,000		
Total			730,000.00		15,300.00	20,000.00	24,700.00	60,000.00		40,000.00		182,080.00	242,080.00	242,080.00		155,580
Owner Amount			220,000.00		-	20,000.00	10,000.00	30,000.00		<b>5.48%</b>		160,000.00	190,000.00	190,000.00		141,000
Owner % of Total			<b>30.14%</b>		0.00%	100.00%	40.49%	50.00%		Less than 6% so no 25% dual limit		94.1%	82.6%	<b>82.6%</b>		<b>90.63%</b>
													Deductible Percent:			
													Employer Contributions		222,080.00	
													Eligible Payroll		730,000.00	
													Note, legally over 25%		<b>30.42%</b>	

Case Study #3  
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Second Generation Owners  
"MAXED OUT" SAFE HARBOR 401(k) PROFIT SHARING PLAN

Name	Age	Service	Eligible Pay	3% Safe Harbor Contribution	% of Pay	Profit Sharing Contribution	% of Pay	Estimated 401(k) Salary Deferral	% of Pay	Total Profit Sharing Contribution	% of Pay
Long Service #1	60	25	40,000	1,200	3.0%	2,800	7.0%		0.0%	4,000	10.0%
Long Service #2	55	20	35,000	1,050	3.0%	2,450	7.0%		0.0%	3,500	10.0%
Older Short Svc	60	2	25,000	750	3.0%	1,750	7.0%		0.0%	2,500	10.0%
Owner #1	42	10	220,000	6,600	3.0%	22,400	10.2%	15,000	6.8%	44,000	20.0%
Owner #2	40	10	220,000	6,600	3.0%	22,400	10.2%	15,000	6.8%	44,000	20.0%
Other #1	40	3	30,000	900	3.0%	2,100	7.0%		0.0%	3,000	10.0%
Other #2	30	1	20,000	600	3.0%	1,400	7.0%		0.0%	2,000	10.0%
<b>Total</b>			<b>590,000</b>	<b>17,700</b>		<b>55,300</b>		<b>30,000</b>		<b>103,000</b>	
<b>Owner's</b>			<b>440,000</b>	<b>13,200</b>		<b>44,800</b>		<b>30,000</b>		<b>88,000</b>	
<b>Owner's %</b>			<b>74.6%</b>	<b>74.6%</b>		<b>81.0%</b>		<b>100.0%</b>		<b>85.4%</b>	

Case Study #3  
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Second Generation Owners  
Combination 401(k)/Profit Sharing - Cash Balance Plan

Name	Age	Service	Eligible Pay	3% Safe Harbor Contribution	% of Pay	Profit Sharing Contribution	% of Pay	401(k) Salary Deferral	% of Pay	Total Profit Sharing Including Owner 401(k)	% of Pay	Cash Balance Contribution	% of Pay	Total Contribution	% of Pay
Long Service #1	60	25	40,000	1,200	3.0%	4,800	12.0%		0.0%	6,000	15.0%	800	2.0%	6,800	17.0%
Long Service #2	55	20	35,000	1,050	3.0%	4,200	12.0%		0.0%	5,250	15.0%	700	2.0%	5,950	17.0%
Older Short Svc	60	2	25,000	750	3.0%	500	2.0%		0.0%	1,250	5.0%	500	2.0%	1,750	7.0%
Owner #1	42	10	220,000	6,600	3.0%	3,000	1.4%	15,000	6.8%	24,600	11.2%	72,000	32.7%	96,600	43.9%
Owner #2	40	10	220,000	6,600	3.0%	3,000	1.4%	15,000	6.8%	24,600	11.2%	65,000	29.5%	89,600	40.7%
Other #1	40	3	30,000	900	3.0%	600	2.0%		0.0%	1,500	5.0%	600	2.0%	2,100	7.0%
Other #2	30	1	20,000	600	3.0%	400	2.0%		0.0%	1,000	5.0%	400	2.0%	1,400	7.0%
<b>Total</b>			<b>590,000</b>	<b>17,700</b>		<b>16,500</b>		<b>30,000</b>		<b>64,200</b>		<b>140,000</b>		<b>204,200</b>	
<b>Owner's</b>			<b>440,000</b>	<b>13,200</b>		<b>6,000</b>		<b>30,000</b>		<b>49,200</b>		<b>137,000</b>		<b>186,200</b>	
<b>Owner's %</b>			<b>74.6%</b>	<b>74.6%</b>		<b>36.4%</b>		<b>100.0%</b>		<b>76.6%</b>		<b>97.9%</b>		<b>91.2%</b>	
<b>Total Employer Profit Sharing Contribution</b>								<b>34,200</b>							
<b>Contribution as a % of eligible Payroll</b>								<b>5.8% Under 6% Limit!</b>							
												<b>Total Employer Contribution</b>		<b>174,200</b>	
												<b>Percent of Eligible Pay</b>		<b>29.5%</b>	

## Case Study# 4 Improving on the Defined Benefit Plan

Name	Age	Service	Old Type Defined Benefit			PROFIT SHARING/401(k) CONTRIBUTIONS				CASH BALANCE PLAN		TOTAL			
			Pay	Regular Final Average Pay Defined Benefit	% of Pay	3% Safe Harbor Plus Profit Sharing	% of Pay	401(k) Deferral	Total Profit Sharing Plan	% of Pay	Cash Balance Hypothetical Contribution	% of Pay	Total Employer Contribution Plus Owner k Contribution	% of Pay	Design Improvement
Key One	52	25	220,000	124,256	56.5%	8,800	4.0%	20,000	28,800	13.1%	124,000	56.4%	152,800	69.5%	28,544
Old Long- Mary	59	25	32,000	25,431	79.5%	2,080	6.5%		2,080	6.5%	3,200	10.0%	5,280	16.5%	20,151
Old Short	56	2	25,000	17,163	68.7%	1,625	6.5%		1,625	6.5%	500	2.0%	2,125	8.5%	15,038
Future Owner	40	6	50,000	15,725	31.5%	3,250	6.5%		3,250	6.5%	5,000	10.0%	8,250	16.5%	
Just Thirty	30	7	35,000	6,758	19.3%	2,275	6.5%		2,275	6.5%	700	2.0%	2,975	8.5%	
Twenty	28	1	28,000	4,904	17.5%	1,820	6.5%		1,820	6.5%	560	2.0%	2,380	8.5%	
Twenty Something	27	3	18,000	3,002	16.7%	1,170	6.5%		1,170	6.5%	360	2.0%	1,530	8.5%	
Pre-Funding/Buffer				70,000									200,000		130,000
				70,000											
<b>Total</b>			<b>408,000</b>	<b>267,239</b>		<b>21,020</b>		<b>20,000</b>	<b>41,020</b>		<b>134,320</b>		<b>375,340</b>		<b>193,733</b>
Owner Amount			220,000	124,256		8,800		20,000	28,800		124,000		152,800		
Owner % of Non Buffer Total			53.9%	63.0%		41.9%		100.0%	70.2%		92.3%		87.1%		

# Cash Balance Add-On Plans —Plain and Simple

## Answers to Ten Common Questions About Cash Balance Add-on Plans

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November 2005

### Question One

#### *What is a Cash Balance Plan?*

A Cash Balance Plan is a Qualified Defined Benefit that looks more like a Profit Sharing Plan or Money Purchase Pension Plan. But, unlike a regular Defined Benefit Plan, benefits are expressed as account balances (lump sum amounts).

### Question Two

#### *How does it work?*

As shown in exhibit 1 below, each year the participants gets credited with a “hypothetical” contribution (the contribution % times Pay), provided they work more than 1000 hours. This contribution is deemed to be made at the end of the plan year. In addition, each year, the beginning balance is credited with a year’s interest using the 30 Year Treasury Equivalent interest rate.

Each year the plan sponsor funds the plan according to the Defined Benefit Funding rules. These funds are not assigned to anyone’s specific account, but in total will generally be a little more than the total hypothetical balances. As with a regular Defined Benefit Plan it is possible to provide maximum/minimum funding flexibility.

### Question Three

#### *What is meant by the term “Add-On” when speaking of “Add-On Cash Balance Plans”?*

Simply an “Add-On” plan is an additional plan added on to a Plan Sponsor’s already existing Profit Sharing or Profit Sharing/401(k) Plan. **A Cash Balance Add-on Plan is not a conversion plan.** You are not converting one plan into another, you are simply adding one plan to another. Although there have been some issues raised with converting regular Defined Benefit Plans into a Cash Balance Plan (i.e. IBM), and that these issues have not been fully resolved, these are not the type of plans we are discussing here.

### Question Four Part 1

#### *Why is the Add-On Cash Balance Plan such a powerful tool to optimize plan design and funding strategy?*

We will answer this question in two parts. First, let’s consider the three critical areas, regardless of whether you have a defined contribution plan or a defined benefit plan, that good plan design and funding strategy will effectively address:

Exhibit 1

<u>Year</u>	<u>Pay</u>	<u>Contrib. %</u>	<u>Hypothetical Contribution</u>	<u>Int. Rate</u>	<u>Interest</u>	<u>Account Balance</u>
2004	\$20,000	4%	\$800	5.31%	\$0.00	\$800.00
2005	\$21,000	4%	\$840	5.06%	\$42.48	\$1,682.48
2006	\$22,000	4%	\$880	4.46%	\$85.13	\$2,647.61

a. Maximizing Tax Deductible Contributions

b. Allocating contributions in the best way

among owners, long service employees, favored groups and other employees. This includes limiting employer costs in part by having employees participate in a 401(k) Plan.

c. Allow for funding flexibility from year to year to help a sponsor to maximize contributions in an up year and limit contributions in a down year.



#### Question Four Part 2

*Now that we understand the basics to optimizing plan design and funding strategy, how does adding a Cash Balance Plan to a Profit Sharing/401(k) Plan specifically address these three critical areas?*

- Owners and keys (i.e. Favored Employees) can have much more than \$46,000 (\$49,000 in 2006) contributed for them.
- Favored Employees can receive a much higher percent of the contribution than in either a New Comparability Profit Sharing Plan or a Defined Benefit Plan by itself.
- Long Service employees can receive higher contributions than other employees without the excessively high contributions in regular Defined Benefit Plans and 412(i) Plans.
- The risk and responsibilities are shared more with participants through the fact that there is a 401(k) Plan (i.e. employee contributions and responsibility for investment choices and results). Also, the investments on the Profit Sharing portion (whether trustee directed or participant directed) do not affect employee contributions as in the Defined Benefit Plan.
- The Cash Balances carry much less risk than a regular Defined Benefit Plan in that:

1. It is a career average as opposed to a final average pay plan. This means that a spike in pay a few years before someone retires will have a much smaller effect on pension costs.

2. A higher percent of the contribution goes for the owner or favored group. It is easier for the owner to cutback on his own benefit than for other employees.

3. Usually there is no past service liability and small PBGC premium payments.

4. Investments are usually more conservative since relatively more equity investments will be made in the Profit Sharing/401(k) side.

5. Lump Sum payouts are not affected by fluctuations in the 417(e) interest rates.

- Cash Balance Plans are easier for participants and sponsor's to understand since all benefits can be expressed as account balances just as with Profit Sharing and 401(k)'s.

#### Question Five

*What are the design and funding factors actuaries have to consider with dual plan situations?*

It is imperative for the actuary to have clear communication with not only the plan sponsor, but also with the sponsor's other advisors. This will allow him to not only take advantage of dual plans strategies, but, also, multi-year strategies to maximize wealth accumulation for the owner. A good actuary has to balance and optimize among such factors as:



- a. Benefit and Contribution Limits
- b. Providing adequate benefits for long service employees while holding down costs for short service employees.
- c. Decide the best way to handle Top Heavy minimums not just currently but as circumstances change in the future.

- d. Participation and Coverage Tests
- e. Discrimination Testing on benefits and contributions and related Gateways
- f. Funding Flexibility within rules and standards as well as deal with the 25% combined plan deductible limit.
- g. Changes in Sponsor's business, cash flow, goals and personnel.

### Question Six

*How do the administrative requirements for Cash Balance Plans differ from Defined Contribution Plans?*

Unlike a Defined Contribution Plan, the yearly administrative requirements for a Cash Balance Plan require the actuary to produce an actuarial valuation, schedule B (with the IRS 5500 forms) and a PBGC-1. In addition, annual benefit statements are usually done after the end of the plan year (as stated earlier, these may be combined with the Profit Sharing and 401(k) Statement).

### Question Seven

*What are some of the Investment Considerations?*

As a Defined Benefit Plan, Cash Balance Plans are trustee directed and normally call for more conservative, fixed income investments.

### Question Eight

*Does the actuary have to do the record keeping for both plans?*

No, Profit Sharing/401(k) record keeping can stay where it is. But, as stated in question five, the actuary must have good communication and coordination with the other advisors and record keepers to do the necessary contribution determination, testing and combined benefit statements (if they are desired).

### Question Nine

*How do the fees for a Cash Balance Plan compare with those for a regular Defined Benefit Plan?*

It is true that the fees for a Cash Balance Plan are a little higher (about 20%) than a regular Defined Benefit Plan. But, and this is a big but, those additional fees are usually minor in comparison to the cost savings from a fully optimized plan design. In fact, the cost savings is often many times the slight extra cost in administrative fees.

### Question Ten

*How easy is it to close down a cash balance plan?*

Usually much less difficult than for a regular defined benefit because the assets track close to the hypothetical account balance amounts. Many times reducing accruals is an alternative if the problem is a short term cash flow shortage.

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## RELATED ARTICLES

Below are related articles on Cash Balance Plans. If you would like to view the entire article just go to our website, [www.practicalactuary.com](http://www.practicalactuary.com)

Year End Pension Plan Strategies

—in Light of Pending Pension Legislation

by John Agatston, FSA, EA, MAAA, MSPA

Why Adding-on a Cash Balance Plan to 401(k) Profit Sharing Plans Not Only Makes Sense—But is Good National Pension Policy!

by John Agatston, FSA, EA, MAAA, MSPA

Add-on Cash Balance Plans-Perhaps the Best Kept Secret in the Pension Industry

by John Agatston, FSA, EA, MAAA, MSPA

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EFFECT OF PPA '06 ON PBGC PREMIUM  
ON SMALL DEFINED BENEFIT PLANS

	Variable Ceiling Limit	Per Participant Premium	Total Worst Case Scenario Annual Premium
1	5	30	35
2	20	60	80
3	45	90	135
4	80	120	200
5	125	150	275
6	180	180	360
7	245	210	455
8	320	240	560
9	405	270	675
10	500	300	800
11	605	330	935
12	720	360	1,080
13	845	390	1,235
14	980	420	1,400
15	1,125	450	1,575
16	1,280	480	1,760
17	1,445	510	1,955
18	1,620	540	2,160
19	1,805	570	2,375
20	2,000	600	2,600
21	2,205	630	2,835
22	2,420	660	3,080
23	2,645	690	3,335
24	2,880	720	3,600
25	3,125	750	3,875

# WHAT BUSINESS OWNERS WANT IN A QUALIFIED PLAN(S)

## 1. MAXIMIZE DEDUCTIONS/ACCUMULATIONS

Higher deductions from a Defined Benefit along with a 401(k) plus some Profit Sharing contribution (with or without a Safe Harbor contribution)

## 2. ALLOCATE CONTRIBUTIONS AMONG PARTICIPANT'S IN A WAY THAT MAKES BUSINESS SENSE (i.e. more for some longer service and key employees and less for others)

Profit Sharing/401(k) (DC) Plans allow for more skewing (leverage) than a Defined Benefit (DB) (including a Cash Balance Plan) by itself. However, the most skewing occurs when DC and DB plans are combined assuming the plan specifications are properly crafted.. (see example).

Dual Plan also allows for employees to participate in contributing to their retirement.

Efficient benefit adequacy – by using savings from short service participants to direct to longer service employees.

## 3. FLEXIBILITY IN FUNDING FROM ONE YEAR TO THE NEXT – NOT ALLOWING A REQUIRED CONTRIBUTION FROM HOLDING THE BUSINESS HOSTAGE! With a DC/DB combination we have year to year funding flexibility in the following areas:

A. Individual 401(k) Deferrals

B. Profit Sharing Contributions to the extent not needed to pass aggregate cross-testing.

C. Defined Benefits pre PPA'06 through the strategic use of funding methods and assumptions as well as other techniques. Now with PPA '06 through the use of the funding “buffer”.

Other areas of importance are:

### 1. Minimizing risks:

A. Cost/Funding Risks – reduced in part through the two plan strategy.

B. Investment Risks – diversity by

i. 401(k) Deferrals, 401(m) matches and Safe Harbor Contributions– usually participant directed

ii. Profit Sharing Contributions maybe either trustee directed or participant directed

iii. Cash Balance Plan – from the sponsor's point of view it is trustee directed but from the participants point of view the principal is guaranteed along with interest rate with small variations.

C. Legal Risks – PPA'06 addressed the age discrimination, wear away on conversion and whiplash in a positive manner. Almost, simultaneously with the passage of PPA '06 came the reversal of the IBM case on Cash Balance Plans.

### 2. Understandability – Adding on a Cash Balance Plan to a Profit Sharing/401(k) Plan can be viewed, in a way, as adding on another account.

### 3. Administrative Simplicity and related costs – once Profit Sharing and 401(k) administration is properly working adding on a Cash Balance Plan is relatively easy.