

## Retirement Planning

# Adding on Cash Balance Plans

What do you do when your 401(k) plan reaches its contribution limit?

**M**any attorneys participating in 401(k) and profit-sharing plans discover that they have reached their tax-deferred contribution limits rather quickly. In 2007 the maximum 401(k) plan contribution is \$15,500 (\$20,500 if you are at least 50 years old), and a profit-sharing plan allows another \$29,500 of contributions.

Fortunately, attorneys interested in contributing more than the \$50,000 limit do have an option. They can make use of so-called cash balance plans. The advantage of including these instruments in the retirement package is that total contributions for a participant can be as much as \$200,000 per year by adding them. (Pay a visit our Web site, [cashbalancedesign.com](http://cashbalancedesign.com), to determine your contribution limit.)

With a cash balance plan, which is a type of defined benefit plan, you can specify the amount of contribution to be credited to each participant account, such as a percentage of pay or a flat dollar amount. There's an important additional advantage to cash balance plans: You can also guarantee the investment earnings on those contributions, which is not dependent on the plan's investment performance.

The advantage of the cash balance plan over the traditional defined benefit plan is that partners know what is going into the plan on their behalf and what will come out when they leave.

There is a slight drawback: Because cash balance plans are not profit-sharing plans under which contributions can vary year-to-year depending upon profitability, cash balance plans have to be amended to permit changes in contribution

levels. Firms can designate a range of contribution amounts for various participants. However, there is a restriction on the frequency of amendments to change benefits unless there is a valid economic reason. For example, the cash balance plan can be amended if a firm's profit is not expected to support the plan contribution. A cash balance plan can also be frozen or terminated.

If you can answer "Yes" to at least one of these questions, your law firm may be an ideal candidate for a cash balance plan:

1. Do you have partners who want to contribute more than \$50,000 per year?
2. Has your firm demonstrated a consistent profit pattern?
3. Is your firm already contributing 3 percent or more to employees' plans, or is it willing to do so?
4. Do you have partners over 40 years of age who want increased contributions to a qualified plan or who want to catch up on their pension savings?

If you or your partners have reached the maximum limit in 401(k) and/or profit-sharing plan contributions, the cash balance plan can provide an opportunity to increase contributions into a qualified retirement plan as well as defer taxable income.



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