



The Law Offices of

R. David Danziger

TAX-ADVANTAGED RETIREMENT PLAN DESIGN & CONSULTING

30 Matthew Circle, Suite 100
Richboro, PA 18954
e danzigerplans@msn.com
p (215) 322-4202
f (215) 322-4364
c (215) 470-0740
www.danzigerplans.com

CASE STUDY: SMALL FIRM MAXIMIZES RETIREMENT SAVINGS FOR EMPLOYEES & FAMILY

Joseph Hatchett is managing partner of Hatchett Communicators, a corporate communications consulting firm serving the technology industry. Joe is 50 years old, and earns over \$200,000 a year.

His son, Brian, is being groomed to take over the business, and earns \$125,000 a year. Joe's father, Paul, founded the firm in 1955, and draws a nominal salary of \$20,000 per year. Joe's wife, Karen manages the office, and draws an \$85,000 annual salary.

The firm sponsors a 401(k) profit sharing plan, and its junior associates are recent college grads just getting established. As a younger workforce, the staff tends not to maximize their own 401 (k) contributions to the plan.

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Joe wants to retire early (in the next five years), and would now like to save as much money as possible for retirement. But the firm's current 401(k) plan—an off-the-shelf prototype plan—is severely limited in its flexibility.

The company is contributing \$29,000 a year, and the family only receives \$16,000 of

this benefit—clearly not enough for Joe to meet his goal.

In addition, to avoid violating IRS regulations, Joe can't maximize his own contributions. Last year, after a return of excess 401(k) contributions to satisfy the ADP (Actual Deferral Percentage) test, he was able to contribute less than \$5,000—not the \$14,000 maximum 2004 contribution to which he was entitled. Other family members were similarly constrained in their ability to contribute: Dick was able to defer only \$2,600, and Cynthia was able to defer only \$2,500.

The company turned to The Law Offices of R. David Danziger for help in solving its retirement planning dilemma. The first step was to implement a 3% non-elective safe harbor contribution, which allowed all family members to maximize their own 401(k) deferrals. Danziger then looked at a number of designs to maximize the profit sharing contribution, including their current prototype Integrated Plan and a variety of New Comparability allocation formulas, to help Hatchett Communicators meet its goals.



A nationally known author and speaker, R. David Danziger Esq. has been quoted in the Wall Street Journal, & Lawyers Weekly

Ultimately, Danziger suggested that Hatchett Communicators adopt a One Category Per Participant plan structure. This let the family dramatically increase the amount it can save, and the amount of income it shelters from taxes.

Various designs were considered. While some alternative structures allowed the family to save more, they also significantly increased the overall cost of the plan. For example, an Integrated Contribution plan design required all employees to receive a 10% contribution, nearly doubling the total plan cost.

Another option - Two-tier New Comparability plan designs - targets retirement plan contributions to older workers. This design didn't help Hatchett Communicators, because Brian is one of the youngest employees in the firm. As a result, a New Comparability plan more than quadrupled prototype plan cost, and resulted in non-family employees receiving 60% of the contribution dollars.

While a Multi-Tier New Comparability plan (option 4) was better (total employee cost \$25,000, with family members getting 63% of total plan dollars),
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there is still a common pitfall: in some cases Multi-Tier New Comparability plans can result in age discrimination claims. The best solution was clearly an One Category Per Participant plan design.

A One Category Per Participant plan lets the Hatchett family set aside more than \$80,000 pre-tax from company contributions, with a manageable increase in contributions to non-family members. Compounding the benefit: all family members can increase their individual 401(k) contributions

to the plan.

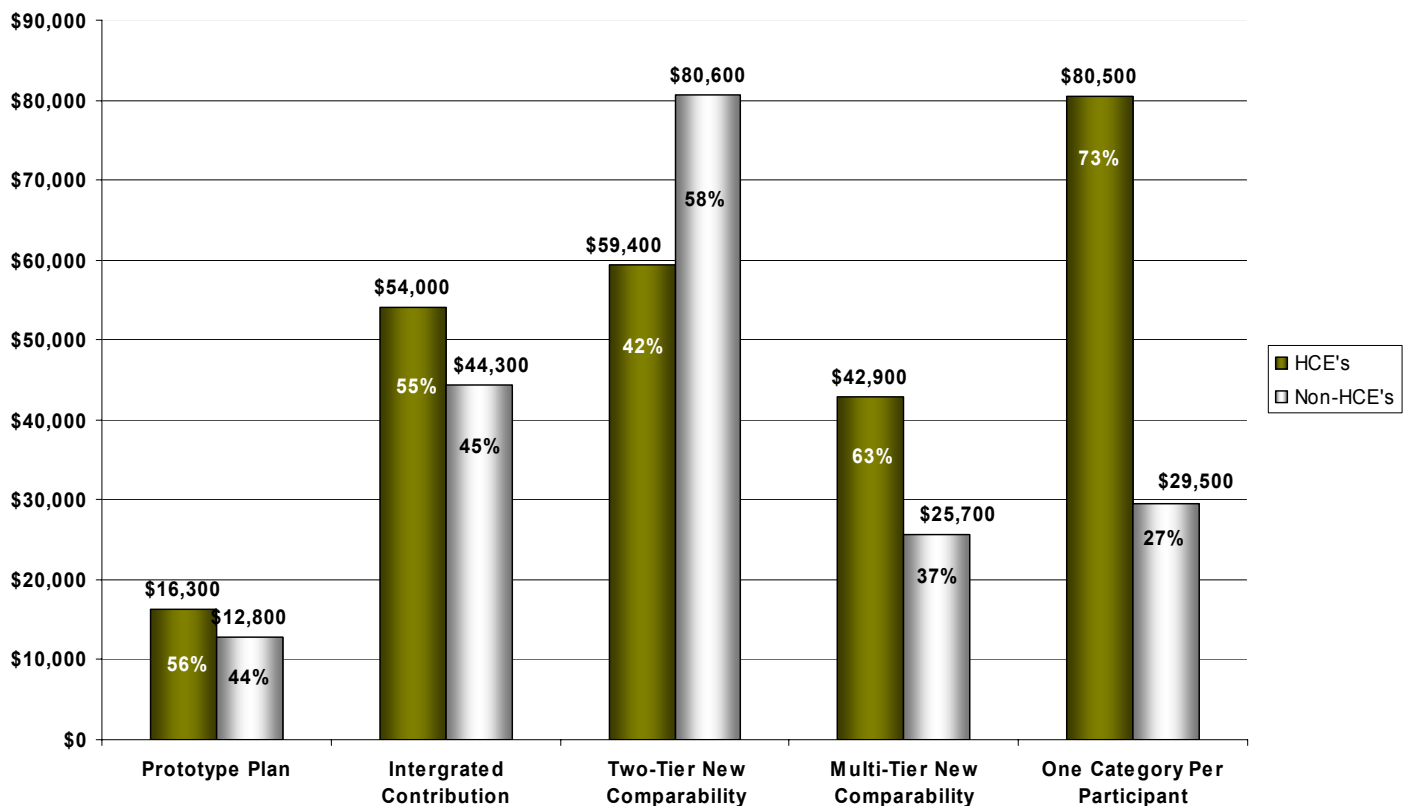
Joe and Karen are now well on their way to reaching their retirement planning goals. As a couple, they can defer \$32,000 through the 401(k) feature, and receive an additional company contribution of \$56,000.

This has the added benefit of reducing the family's tax bill. As a group, the family has reduced its tax liability by more than \$40,000 a year. That money is now being channeled into their retirement plans, and not into the government's coffers!

In addition, Hatchett Communicators now has enhanced flexibility – in good years, retirement contributions can be maximized, but in bad years, the firm can scale down its contributions to zero. This enables the company to adapt to changing market conditions and react accordingly.

The Law Offices of R. David Danziger can help your family business to design a retirement planning approach that helps you orient retirement plan spending towards family members.

Hatchett Communicators Plan Comparison



To learn more about our OCPP plan designs or retirement planning in general, please contact us at:

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