

The DB(k) Plan Makes Its Debut

Introducing a New Hybrid Retirement Plan

Are you ready for a new type of retirement plan? The defined benefit 401(k) plan – or DB(k), for short – will finally be available in 2010. This hybrid plan was initially authorized by the Pension Protection Act of 2006.

Background

Defined benefit plans, like traditional pension plans, have declined in popularity among business owners in recent years, primarily because the plans are completely funded by the employer. Annual contributions based on actuarial computations involving years of service and salary are set aside for employees. For 2010, the contributions cannot fund an annual retirement benefit exceeding \$195,000 (see box below for retirement plan limits for 2009 and 2010).

Conversely, 401(k) plans have gained in popularity as employers seek to shift some of the funding burden to employees. For 2010, an employee can elect to defer up to \$16,500 of salary to his or her account (plus an extra \$5,500 if age 50 or older). The employer may provide matching contributions up to a specified limit (e.g., 3% of the employee's salary).

Both plans must meet nondiscrimination requirements to avoid favoring highly compensated employees (HCEs), but the testing rules for 401(k) plans are especially tough. Several "safe



Small businesses will get a new retirement savings option in 2010 – the Defined Benefit 401(k) or DB(k) plan.

harbor" rules have been implemented to ease some of the burden. In addition, the plan may feature automatic enrollment to encourage a higher participation level by non-HCEs.

New Developments

Now certain aspects of the plans are combined in the DB(k). Starting in 2010, the DB(k) is available to employers with at least two employees and no more than 500 employees.

The DB(k) typically combines a defined benefit plan based on final average pay with a safe harbor 401(k). The plan must provide a defined benefit equal to 1% of the final average pay times years of service, up to a maximum of 20% of final pay.

The 401(k) part of the plan requires automatic enrollment, with

an employee deferral equal to 4% of compensation. Matching contributions for HCEs cannot exceed the matching contribution rate for non-HCEs. The basic matching contribution is 50% on up to 4% of pay. Employees are immediately vested in their 401(k) accounts.

If these requirements are met, your company has to file just one document for the plan. Also, the IRS will require only one annual report, and you do not have to endure the strenuous testing procedures for 401(k)s.

Final Words

It is expected that the DB(k) will appeal to professional corporations and partnerships, such as medical and legal practices, as well as other small business operations. Before taking steps, be sure to contact us for professional advice. ■



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