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Alternative Tiered Defined Benefit Pension Plan Proposal For Small Law Firms

A new trend in plan design for small law firms is to provide attorneys, and certain key employees, with benefits at a higher rate than other employees. A "Tiered" Defined Benefit Plan design may allow lawyers to fund for their optimal benefit, while controlling retirement benefit costs for employees.

The Tiered Defined Benefit Plan allows a law firm to separate employees into different groups (or tiers). Each tier may have a different benefit formula subject to non-discrimination testing requirements. This type of plan allows a law firm to specifically tailor a plan to meet the goals of the practice and reward certain key employees at higher levels than others. The tier groups can be determined based on a number of factors including: job description, length of service, performance goals, etc.

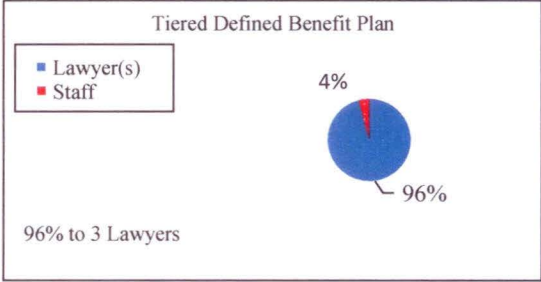
The adoption of a Tiered Defined Benefit Plan can have tremendous advantages for the small law firm. However, you should be aware that contributions are actuarially determined each year and not at the discretion of the Employer-Plan Sponsor.

Defined Benefit Plan Traditional vs. Tiered Benefit Formulas For Plan Year Ending December 31, 2014							
	Age	Salary	Employee Group	Traditional* Formula	% of Contribution	Tiered** Formula	% of Contribution
Lawyer	55	\$245,000	A	\$160,549	72.39%	\$160,655	80.19%
Sr. Associate	50	\$ 60,000	A	\$ 27,000	12.17%	\$ 27,000	13.48%
Jr. Associate	45	\$ 40,000	B	\$ 16,195	7.30%	\$ 4,535	2.28%
Legal Assistant	40	\$ 30,000	B	\$ 7,897	3.58%	\$ 2,948	1.47%
Secretary	35	\$ 25,000	B	\$ 4,483	2.02%	\$ 2,008	1.00%
Secretary	30	\$ 20,000	B	\$ 2,514	1.13%	\$ 1,408	0.70%
Bookkeeper	25	\$ 20,000	B	\$ 1,795	0.81%	\$ 1,005	0.50%
Receptionist	21	\$ 20,000	B	\$ 1,384	0.62%	\$ 775	0.39%

***Formula: 200% of average monthly compensation, reduced for years of participation less than 25.**

****Formula: 8% of compensation times years of participation for Group A, flat-dollar-benefit of \$133.33 times years of participation for Group B.**

Tiered Defined Benefit Plan



96% to 3 Lawyers

Owner Advantages:

- Larger contributions. Tiered Defined Benefit Plans allow lawyers to fund much larger contributions than Profit Sharing or 401(k) plans. You can currently contribute to provide a maximum annual benefit for yourself of up to \$195,000 (per participant).
- Tremendous tax savings. Because defined benefit plans allow for larger employer contributions, you can receive larger tax deductions.
- Flexibility is available with an add-on 401(k) Profit Sharing Plan which allows for even greater contributions and funding flexibility.

Is Your Firm An Employer Candidate:

- Owner should be at least age 50, and 10 years older than most of the staff.
- Your firm should have a stable cash flow to meet annual funding obligations.