

THE DB(k)

In 2010, companies have a whole new retirement plan option.

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

What is a DB(k)? Basically, a DB(k) combines a pension plan with a matching 401(k) plan. As the name implies, it is a defined benefit retirement plan with some of the features of a 401(k).

DB(k)s could become great recruiting tools. These hybrid retirement plans will be very attractive to employees looking to restore pre-bear market retirement savings levels - not to mention workers who want to retire with a pension-style income like the one Mom and Dad had. In the coming years, firms in especially competitive industries may be prompted to offer DB(k)s as perks.

Won't it cost a lot for a company to fund one? Not necessarily. It is likely that the companies that do create them will have sizable cash reserves and profit margins. However, it isn't as if a business is funding two retirement plans at once. In fact, any businesses that offer both defined benefit plans and 401(k) plans may unite them in this new option.¹

A DB(k) could save a business paperwork & money. These plans are exempt from "top-heavy" rules, and a company can put one in place with just one Form 5500 and one plan document. Principal Financial Group vice-president Chris Mayer, whose firm helped to develop the DB(k), told the *Washington Post* that the cost of providing a DB(k) will probably work out to 6-8% percent of payroll for most companies. This is certainly beneath the administrative costs of having both a 401(k) and a pension plan. Companies with 2-500 employees are eligible to have DB(k)s.^{2,3,4}

What do employees get? An income stream, an employer match and a really neat tool to save for retirement. In brief, the DB(k) has four compelling attributes:

- **An arrangement for lifelong monthly income.** The income stream won't replace an employee's end salary, but it certainly will help. Loyalty is rewarded: the pension income equals either a) 1% of final average pay times the number of years of service, or b) 20% of that worker's average salary during his or her five consecutive highest-earning years.⁵
- **Employees are automatically enrolled in the 401(k) portion.** (They can choose to opt out.)²
- **The company automatically directs 4% of a worker's salary into his or her 401(k) account.** The company also has to match 50% of that amount, which is vested upon the match. (Employees do have the choice to alter the contribution level up or down from 4%.)³
- **It only takes three years for an employee to become fully vested in a DB(k) pension plan.** So even if they leave the company, the money is theirs.⁴

The best of both worlds? Maybe. The DB(k) is shaping up as an intriguing 401(k) alternative, a new IRS-sanctioned way to offer valued employees something more than the usual voluntary retirement savings program. If you are saving for retirement, ask your company about it. If you own a business in a very competitive field, it may help you recruit, impress and retain the caliber of employees you really want.

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Citations.

¹ irs.gov/irb/2009-35_IRB/ar09.html [8/31/09]

² kiplinger.com/businessresource/forecast/archive/DBk_pension_of_future_090819.html [8/19/09]

³ investopedia.com/articles/retirement/10/dbk-plan.asp [3/19/10]

⁴ washingtonpost.com/wp-dyn/content/article/2009/11/13/AR2009111304651_2.html [11/15/09]

⁵ bankrate.com/finance/retirement/where-to-find-income-for-retirement-1.aspx [3/9/10]