Would You Rather

PAY YOURSELF OR THE IRS?

CASH BALANCE PLANS

Many partners and professionals find Cash Balance Plans to be an excellent way to increase contributions to their retirement accounts. After designing over 1,000 of these plans, we have found that the following are typically good candidates.

1. Partners or owners who desire to contribute more than $63,000 a year to their retirement accounts.
2. Companies already contributing 3%-5% to employees, or at least willing to do so.
3. Companies which have demonstrated consistent profit patterns.
4. Partners or owners over 36 years of age who desire to "catch up" or accelerate their pension savings.

WHAT SHOULD YOU CONSIDER?

- Cash Balance Plans are typically paired with a 401(K) - profit sharing plan.
- You should expect to maintain the plan for at least 3-5 years.
- Cash Balance Plans are defined benefit plans and require annual valuations and reporting.

CONTACT US

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What Is A
CASH BALANCE PLAN?

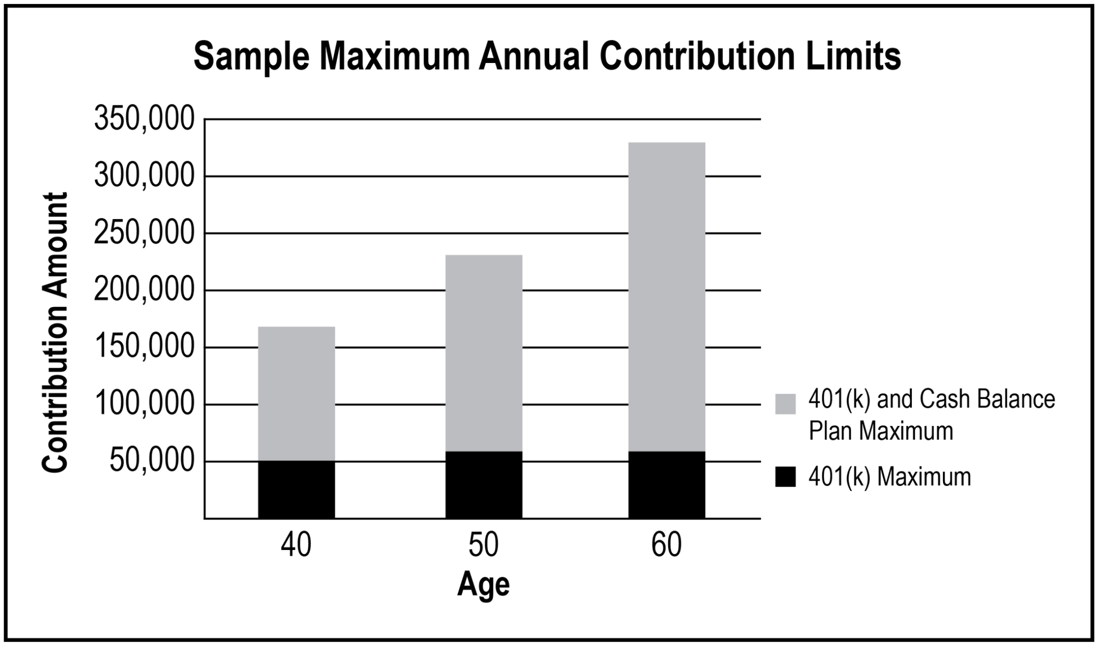
Cash Balance Plans are a type of tax-qualified Defined Benefit Pension Plan that looks a lot like a profit-sharing plan. They have increased in popularity in recent years for a number of reasons.

TAX BENEFITS

Contributions to the plan are tax deductible and investment return is tax deferred.

HIGHER CONTRIBUTION LIMITS

Cash Balance Plans permit larger annual tax-deductible contributions and benefits than are possible with a 401(k) Profit Sharing Plan.



FLEXIBLE DESIGN

Cash Balance Plans can easily be designed to provide age neutral benefits to all employees or targeted allocations to specific individuals.

EASY TO UNDERSTAND

Cash Balance Plans are easier for plan sponsors and participants to understand than traditional Defined Benefit Plans.

WORK WITH 401(K) PLAN

Cash Balance Plans do not require substantial changes to existing 401(k) Profit Sharing Plans to work well in tandem with 401(k) Profit Sharing Plans.

Cash Balance Plan

FEATURES

NICHE RETIREMENT PLAN

Cash Balance Plans are a great retirement plan fit and solution for physician groups, dental groups, and other professional practices. They also work well for other small business owners or self-employed individuals.

TAX DEDUCTIBLE CONTRIBUTIONS

A Cash Balance Plan is a tax-qualified retirement plan like 401(k) Plans. This means that the contributions made to a Cash Balance Plan are tax-deductible and the investment earnings are tax deferred. Cash Balance Plan assets are not subject to income tax until withdrawn from the Cash Balance Plan or a rollover IRA.

HIGHER CONTRIBUTION LIMITS

A Cash Balance Plan provides for much higher tax-deductible contributions than a 401(k) Profit Sharing Plan alone can provide. The maximum contribution amount is dependent upon an individual's age and generally increases the older the individual. At all ages the total maximum contribution available is always higher with a Cash Balance Plan than with a 401(k) Plan alone.

CREDITOR PROTECTION

The Plan assets in a Cash Balance Plan are ERISA creditor protected.

FLEXIBLE DESIGN

A Cash Balance Plan can easily provide for different levels of benefit and contributions for individual owners, physicians, partners and other key individuals.

SUPPLEMENT TO A 401(K) PLAN

A Cash Balance Plan can be maintained along with and as a companion to a 401(k) Profit Sharing Plan.

BENEFITS DEFINED IN A PLAN DOCUMENT

Plan document provides for annual allocation and interest credit.

Interest crediting rate is usually a fixed rate between 3% and 5%. Some Cash Balance Plans now utilize a return based or market-based index. However, a low fixed interest crediting rate is much preferred due to concerns with reducing the maximum lump sum benefit limit and employee contribution cost increase based upon the use of market-based interest crediting.

Total value of plan assets is usually different than total value of Cash Balance benefits.

Are You A Good Candidate FOR A CASH BALANCE PLAN?

Many partners and professionals find Cash Balance Plans an excellent way to increase contributions to their retirement accounts. After designing over 1,000 Cash Balance Plans, we have found that the following are typically good candidates:

1 Partners or owners who desire to contribute more than $62,000 a year to their retirement accounts.

Many professionals and entrepreneurs neglect their personal retirement savings while they're building their practice or their company. They often have a need to catch up on years of retirement savings. Adding a Cash Balance Plan allows them to rapidly accelerate savings with pre-tax contributions as high as $300K, depending on their age.

2 Companies already contributing 3%-5% to employees, or at least are willing to do so.

While Cash Balance Plans are often established for the benefit of key executives and other highly compensated employees, other employees' benefit. The plan normally provides a minimum contribution of between 8%-10% of pay for staff in the Cash Balance Plan or a separate Profit Sharing 401(k) Plan.

3 Companies which have demonstrated consistent profit patterns.

Because a Cash Balance Plan is a pension plan with required annual contributions, a consistent cash flow and profit is very important.

4 Partners or owners over 36 years of age who desire to "catch up" or accelerate their pension savings.

Maximum amounts allowed in Cash Balance Plans are age dependent. The older the participant, the faster they can accelerate their savings.

WHAT SHOULD YOU CONSIDER?

- Cash Balance Plans are typically paired with a 401(K) - profit sharing plan.
- You should expect to maintain the plan for at least 3-5 years.
- Cash Balance Plans are defined benefit plans and require annual valuations and reporting.
- You must establish the plan by the end of your fiscal year.
- If you are a partnership, you will need to define how you will allocate costs among the partners. This is usually accomplished in your partnership agreement or by policy.

Attributes of
CASH BALANCE CANDIDATES

1 **HIGHLY PROFITABLE COMPANIES OF ALL TYPES AND SIZES**

- Usually indicated by the owner's desire for a larger tax deduction
- Principals earning more than $280K per year

2 **FAMILY BUSINESS**

- A Cash Balance Plan can be used as a component of succession planning

3 **CLOSELY HELD BUSINESSES**

- Several owners want a greatly enhanced retirement plan

4 **LAW FIRMS OF ALL SIZES**

- Tax deferral and asset protection are often very important to this profession, along with a highly competitive retirement package to help attract and retain top talent

5 **MEDICAL GROUPS OF ALL SIZES**

- Tax deferral and asset protection are often very important to this profession

6 **PROFESSIONAL FIRMS OF ALL TYPES**

- CPAs, engineers, architects, financial service firms, management consultant and others

7 **OLDER OWNERS WHO HAVE DELAYED SAVING FOR RETIREMENT**

- They need to squeeze 15 years of savings into
- 5 years

8 **THOSE WHO HIGHLY VALUE ASSET PROTECTION**

- ERISA protects all qualified plan assets from creditors in the event of bankruptcy or a lawsuit

9 **THOSE WHO WANT AN ENHANCED BENEFITS PACKAGE FOR EXECUTIVES**

- They want to attract and retain high caliber employees

10 **SOLE PROPRIETORS WITH INCOME EXCEEDING $305,000**

- All entity types apply

CAN CASH BALANCE CONTRIBUTIONS CHANGE FROM YEAR TO YEAR?

- Profit Sharing Plans allow contributions to vary from year to year depending on profitability, but Cash Balance Plans must usually be amended in order to change contribution levels.
- Employers can designate different contribution amounts for various participants, but there is a restriction on the frequency of amendments unless a valid economic reason exists.
- In addition, Cash Balance Plans can also be frozen or terminated before an employee works 1,000 during a plan year.

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