



CRS

CREATIVE RETIREMENT SYSTEMS

Cash Balance Plans

Tax and Savings Optimization for Business Owners

The background of the page features a light blue and white color scheme. At the top, there is a faint, semi-transparent image of a globe. Below the globe, there is a faint line graph on a document, with the word 'RECESSION' visible on the x-axis. The graph shows a downward trend. In the center, there is a dark blue rectangular box with a white border, containing the main text.

The Economic and Debt Quagmire

Given recent economic events, interest rate fluctuations, and market turmoil many business owners are concerned about their retirement savings. Starting a pension plan for your company can help accelerate savings and protect your money from excessive taxation.

What is a Cash Balance Plan?

A cash balance plan is a type of pension plan in which the employer guarantees a contribution level and a minimum rate of return. A cash balance plan has some characteristics of both a traditional pension plan and a defined contribution plan, requires Actuary Certification, and is subject to minimum funding requirements.

These plans help business owners realize tax deductions and savings rates up to 4x greater than a 401(k) plan alone. In addition, owners may contribute hundreds of thousands of dollars toward their retirement each year—thus experiencing significant tax benefits.

Benefits of Sponsoring a Cash Balance Plan?

- Significant tax savings for owners
- Annual participant statements look and feel similar to 401(k) plans
- Assets are protected from creditors
- Significantly higher contribution limits than regular defined contribution plans
- Assets are generally portable, eventually being rolled into an IRA

Who is a Good Candidate?

- Medical or dental groups
- Sole Proprietors
- Highly profitable small businesses
- Larger companies with specific goals targeting key employees
- Business owners who are maxing out their 401(k) deferrals and want additional contributions

EASY COMMUNICATION:

Benefit is a lump sum amount instead of a monthly amount payable for life beginning at retirement.

AGE NEUTRAL FOR STAFF:

Employees of different ages who have the same compensation can receive the same allocation.



CONSISTENT BENEFIT GROWTH:

Lump sum amounts do not fluctuate based upon changes in treasury or corporate bond yields.

INCREASED FLEXIBILITY:

Increased flexibility if the annual allocation is based upon current compensation.

Commonly Asked Questions

How Does a Cash Balance Plan Work?

Employers typically offer a 401(k) profit sharing plan along with a cash balance plan to obtain the maximum allowable contribution available.

Employers contribute to a pooled account and control the account's investment options. Each participant is given an annual benefits statement that reflects an annual contribution credit (a percentage of compensation or a flat dollar amount) and an interest credit.

Since increases and decreases in the value of the plan's investments do not directly affect the benefit amounts promised to participants, the employer bears the investment risks and gains on plan assets.

Highly compensated employees and those closer to retirement benefit the most - which generally includes owners and key employees.

A cash balance plan must pass non-discrimination testing.

How Does a Cash Balance Account Grow?

Cash balance plans grow in two primary ways:

- **Contribution Credits:** Specific contribution crediting rates are determined by a formula in the plan document.
- **Interest Credits:** The rate at which the plan guarantees interest on the accumulated contribution credits. This is not dependent on the plan's investment performance.

How and Where are Contributions Invested?

An employer should work with a knowledgeable financial advisor to determine the most appropriate investment strategy given the sponsor's risk tolerance and cash flow.

An important investment detail separates cash balance plans from traditional 401(k) plans. Cash balance plan assets are not typically invested for maximum returns. Instead, assets are invested to reach a fixed or variable rate outlined in the plan document and with the goal to preserve capital.

Cash Balance Plan in Action

Adding a cash balance plan to an existing 401(k) profit sharing plan allows owners to contribute significantly higher amounts.

This illustration is a common scenario for a smaller business whose owners want to save more for retirement. With the addition of a cash balance plan, they can contribute over \$470,000 to their plan annually which will result in substantial tax deductions.

NAME	AGE	COMPENSATION	401(k)	NONELECTIVE SAFE HARBOR	PROFIT SHARING	CASH BALANCE	TOTAL
Owner 1	55	\$330,000	\$30,000	\$0	\$19,437	\$241,000	\$290,437
Owner 2	45	\$330,000	\$22,500	\$0	\$19,437	\$146,000	\$187,937
HCE Totals		\$660,000	\$52,500	\$0	\$38,874	\$387,000	\$478,374
Employee 1	45	\$50,000	\$0	\$1,500	\$1,825	\$1,000	\$4,325
Employee 1	35	\$35,000	\$0	\$1,050	\$1,278	\$1,000	\$3,328
Employee 1	25	\$25,000	\$0	\$750	\$913	\$1,000	\$2,663
NHCE Totals		\$110,000	\$0	\$3,300	\$4,015	\$3,000	\$10,315
Total		\$770,000	\$52,500	\$3,300	\$42,889	\$390,000	\$488,689
% To Owners			100%	0%	90.6%	99.2%	97.8%





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