

WHAT IS A CASH BALANCE PLAN?

A Cash Balance plan is an advanced retirement savings plan that allows high-income earners to significantly boost their retirement savings and defer current year taxes.

A Cash Balance plan is normally added to an existing 401(k) plan. This highly customizable plan arrangement provides simple retirement income projections and allows for substantially increased contribution limits that are determined by age, compensation and employee group.

KEY BENEFITS

- Substantial tax reductions
- Accelerated retirement savings
- Attraction + retention of top talent
- Flexibility + portability
- Protection from creditors



TAX ADVANTAGES

Cash Balance plans offer tremendous tax advantages including:

- Significant deductions at the time of contribution
- Contributions directly reduce taxable income
- Year-after-year contributions grow tax deferred

Cash Balance Plan Considerations

While cash balance plans are tailored to meet the specific needs of each company, it's important to note a few specific requirements.

If any of the following statements are true, then a cash balance plan may be a good fit:

- ✓ You have consistent, excess cash flow
- ✓ Owners, or key employees, want to save more than \$50,000 into their retirement accounts
- ✓ You already contribute 3 – 4% of your employees' salary into the company's retirement plan and are prepared to fund approximately 8 – 10%
- ✓ You are comfortable with advanced plan design
- ✓ You have a good administrative partner for support

A few additional items you should be aware of prior to committing to a cash balance plan:

- Plan must be set up with the intention of being permanent (minimum 3 – 5 year commitment)
- Changes in plan demographics may impact contribution requirements
- Minimum funding may be required
- Cost considerations



ANNUAL CONTRIBUTIONS ESTIMATES

Age	Compensation	Maximum Contribution
30	\$265,000	\$82,000
35	\$265,000	\$107,000
40	\$265,000	\$133,000
45	\$265,000	\$174,000
50	\$265,000	\$216,000
55	\$265,000	\$275,000
60	\$265,000	\$321,000
65	\$285,000	\$338,000
70	\$330,000	\$304,000

HOW DOES A CASH BALANCE PLAN WORK?

Cash Balance plans are a pool of trustee directed funds. Account balances grow each year in two ways: employer contributions and annual interest credits. The plan document specifies the annual interest rate credit meaning investment performance does not impact the amount guaranteed for each participant. If investments overperform, it will not change what is owed to participants, but if investments underperform it will increase the amount to be funded over time; thus, conservative investment management is important.



If you are comfortable with the cash balance considerations and are looking for larger tax deductions and accelerated retirement savings, **then a cash balance plan may be the right solution for you.**

Cash Balance in Action

Let's see how it works in the real world. The chart below illustrates the enhanced funding that can be made for the owners and key employees of a small professional company.

	Age	Compensation	401(K)	Profit Share + Safe Harbor	Cash Balance	Grand Total
Owner 1	55	\$330,000	\$30,000	\$18,300	\$225,000	\$273,300
Owner 2	45	\$330,000	\$22,500	\$18,300	\$145,000	\$185,800
Employee 1	25	\$50,000	\$0	\$3,500	\$1,000	\$4,500
Employee 2	35	\$50,000	\$0	\$4,500	\$1,000	\$5,500
Employee 3	65	\$50,000	\$0	\$3,500	\$1,000	\$4,500
Employee 4	35	\$50,000	\$0	\$3,500	\$1,000	\$4,500
Employee Cost						\$19,000
Owner's Contribution						\$459,100
Total Contribution						\$478,100

TOTAL CONTRIBUTION TO OWNERS

96%

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Every company is different. Which is why we work closely with our clients to make sure their retirement plan is customized to the unique goals of their business.

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