CASH BALANCE PLANS

2016

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TPS GROUP

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HISTORY AND BASIC STRUCTURE OF A CASH BALANCE PLAN

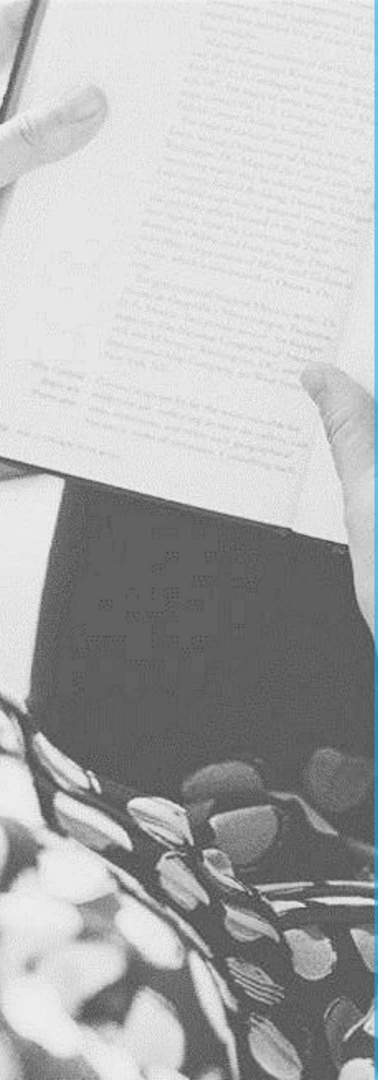
- Started in 1985, approved prospectively by IRS in Pension Protection Act of 2006 (PPA), final regulations passed in October of 2014.

- A hypothetical account balance is established for each participant, as follows:

  Beginning Balance
  \+ Contribution Credits (usually defined as a percent of pay)
  \+ Interest Credits (defined in plan document, guaranteed interest)
  = Ending Balance

- Employer funded, pooled assets, trustee/advisor directed investments, required annual contributions.

- Payable as a lump sum at retirement or termination (annuities also available).



ADVANTAGES OF A CASH BALANCE PLAN

- Large tax deductions
- For the company, money contributed to the plan is tax deductible now.
- For participants, taxation on benefits is deferred until received as income.
- Accelerated retirement savings for Owners and Key employees
- Can vary contribution by owner
- Easy to understand, straight forward hypothetical account balance
- Employer’s liability is easily defined

HOW CASH BALANCE PLANS CAN GROW AND STABILIZE YOUR BUSINESS

→ Addition of new clients from new pool of prospects.

→ Client retention increases (your competition may offer this).

→ Enables you to have a greater menu of services and expertise. No reason for clients to leave you.

→ Helps differentiate yourself. Expands your referral network.

→ Assets in Cash Balance plans can grow quickly. Not uncommon for annual required contributions to be greater than $200,000.

→ Can provide large benefits for select employees (approx. $2.6m for owners at retirement).

WHO IS AN IDEAL CANDIDATE FOR A CASH BALANCE PLAN?

→ Businesses demonstrating high consistent cash flow and profits

→ Professional practices such as Doctors, Dentists, Attorneys

→ Family Businesses

→ Sole proprietorships (owners with younger employees, or any age if no employees)

→ Partnerships with varying goals and needs among the partners

→ Owners who desire to contribute more than $53,000 per year

→ Companies already making a profit sharing contribution to their staff

HOW ARE INVESTMENTS HANDLED?

→ Plan assets are pooled and invested by the trustees usually with an investment manager.

→ Investment return does not affect the amount that is credited to participants' accounts.

→ If the plan's investment earnings exceed the crediting rate, the excess will be used to reduce future employer contributions.

→ Conversely, if the plan's investment earnings are less than the crediting rate, then future employer contributions will be increased.

→ This make-up is typically spread over seven years.

→ A wide range of investment vehicles can be used by the plan sponsor to achieve the interest crediting rate, which is usually set at 4% or 5%.

MAXIMUM CONTRIBUTIONS

Age	DC Plan 401k/Profit Sharing	DB Plan Cash Balance	DB + DC Plans*
65	$59,000	$245,000	$285,000
60	$59,000	$237,000	$277,000
55	$59,000	$184,000	$224,000
50	$59,000	$143,000	$183,000
45	$53,000	$111,000	$145,000
40	$53,000	$ 86,000	$120,000
35	$53,000	$ 67,000	$101,000

* Plans not covered by the PBGC (professional service employers with 25 or fewer employees – i.e. doctors, dentists, attorneys, etc). Maximum overall deduction limit is full DB plan contribution, plus DC plan contribution up to 6% of total pay (if DC plan contribution is greater than 6% of total pay, total of DB plan and DC plan contributions is limited to 31% of total pay).

EXAMPLE

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contributions
				(6% of pay)	(40% of pay)	
Owner	60	$265,000	$24,000	$15,900	$106,000	$145,900
Spouse	55	50,000	24,000	3,000	20,000	47,000
Subtotal		**$315,000**	**$48,000**	**$18,900**	**$126,000**	**$192,900**
				(6% of pay)	(2% of pay)	
Employee 1	40	$50,000	$0	$3,000	$1,000	$4,000
Employee 2	35	40,000	0	2,400	800	3,200
Employee 3	30	30,000	0	1,800	600	2,400
Subtotal		**$120,000**	**$0**	**$7,200**	**$2,400**	**$9,600**
Total		**$435,000**	**$48,000**	**$26,100**	**$128,400**	**$202,500**
Percent of company contributions to owner and spouse (excludes 401k) ……						**93.8%**

Q & A

→ **How does a Cash Balance Plan work?**

Answer: Each participant has an account which grows annually in two ways: first, a contribution and second, an interest credit, which is guaranteed rather than dependent on the plan's investment performance.

→ **Can Cash Balance plans be offered in addition to 401(k) Profit Sharing plans or other plans?**

Answer: Yes, the employer can offer a combination of qualified retirement plans in order to produce a larger contribution.

→ **What are the distribution options upon retirement or if leaving the employer?**

Answer: Any vested account in a Cash Balance Plan can be paid as a lump-sum distribution or annuity. Lump sums are usually rolled over to an IRA.

→ **Must everyone participate equally in the Cash Balance plan?**

Answer: No. Each participant can have a different amount contributed for them.

Q & A (continued)

→ **Can Cash Balance contributions change?**

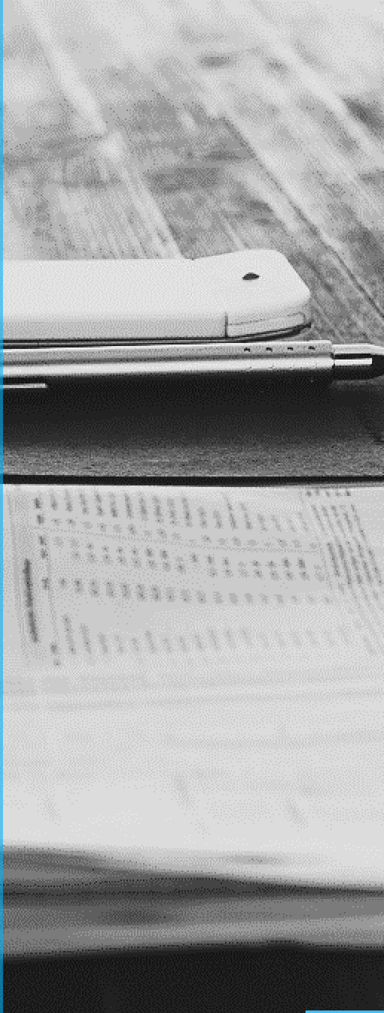
Answer: Yes, but with restrictions. Cash Balance plans can be amended periodically to permit different contribution levels. Any changes must be made before any employee works 1,000 hours during a plan year. In addition, a plan can also be frozen or terminated.

→ **Is the plan subject to IRS nondiscrimination testing?**

Answer: Yes, like any other qualified plan, a Cash Balance Plan is subject to nondiscrimination testing. Employers can anticipate contributions in the range of 5% to 7.5% of pay for staff. The exact percentage required for employees depends on the results of nondiscrimination testing.

→ **How do design and administrative costs compare with 401(k) Profit Sharing plans?**

Answer: They are higher than a 401(k) plan because the plan is maintained by an actuary who needs to certify each year that the plan is in compliance with the Internal Revenue Code.



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