Cash Balance Plans 2019

TPS GROUP

TABLE OF CONTENTS

1. History and Basic Structure of a Cash Balance Plan........................1

2. Advantages of a Cash Balance Plan.. 2

3. How Cash Balance Plans Can Grow and Stabilize Your Business…....3

4. Who is an Ideal Candidate for a Cash Balance Plan.............................4

5. How are Investments Handled? 5

6. Maximum Contributions 6

7. Example.. 7

8. Q&A 8-9

Disclaimer & Offices

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 + Interest Credits = Ending Balance

Contribution Credits: (usually defined as a percent of pay)

Interest Credits: (defined in plan document, guaranteed interest)

- 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.
- 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 per owner.
- Can provide large benefits for select employees (approximately $2.6m to $2.9m for each owner at retirement).

WHO IS AN IDEAL CANDIDATE FOR A CASH BALANCE PLAN?

- Businesses demonstrating 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 $55,000 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	$62,000	$271,000	$312,800
60	$62,000	$261,000	$302,800
55	$62,000	$203,000	$244,800
50	$62,000	$158,000	$199,800
45	$56,000	$123,000	$158,800
40	$56,000	$ 96,000	$131,800
35	$56,000	$ 75,000	$110,800

* 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	$280,000	$25,000	$16,800	$112,000	$153,800
Spouse	55	50,000	25,000	3,000	20,000	48,000
Subtotal		**$330,000**	**$50,000**	**$19,800**	**$132,000**	**$201,800**
				(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		**$450,000**	**$50,000**	**$27,000**	**$134,400**	**$211,400**
Percent of total contributions to owner and spouse (includes 401k) ……						**95.5%**

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 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.

DISCLAIMER

This information is of a general and informational nature and IS NOT INTENDED TO CONSTITUTE LEGAL OR TAX ADVICE. Rather, it is provided as a means to inform you of current information about legislative, regulatory changes, and other information of interest. The information is based on current interpretations of the law and is not guaranteed. Neither the company nor its representatives give legal or tax advice. Please consult your attorney or tax advisor for answers to specific questions.

OUR LOCATIONS

CONNECTICUT
127 Washington Avenue, West Wing
P.O. Box 478
North Haven, CT 06473
Tel: 203.234.2229

James Cantey
Phil Coco
Ella Aderhold
Matthew Sicilia
Andy Hartnett
Diane Durso

SERVICE PROVIDER EXCELLENCE
ASPPA
Administration Services Certification Since 1/22/2013

Find us on: facebook.

www.tpsgroup.com

NEW YORK
270 Northpointe Parkway, Suite 10
Amherst, NY 14228
Tel: 716.839.9405

Ben Gagliano
Jennifer Davie, Esq.

MASSACHUSETTS
468 Great Road
Acton, MA 01720
Tel: 978.369.2318

James Cantey
Bethany Goodrich
Phil Coco

MAINE
The Edwards Block
869 West Main Street, Suite 400
Westbrook, ME 04092
Tel: 207.854.1304

Pam Clinch
Bethany Goodrich
Kristin McDougall