Cash Balance Plans

2020

TPS
GROUP

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HOW A CASH BALANCE PLAN WORKS

- Each participant has a hypothetical account balance which grows annually in two ways: first, a principal credit, which is a contribution usually defined as a percentage of pay, and second, an interest credit, which can be guaranteed rather than dependent on the plan’s investment performance.

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

Beginning Balance + Principal Credit + Interest Credit = Ending Balance

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

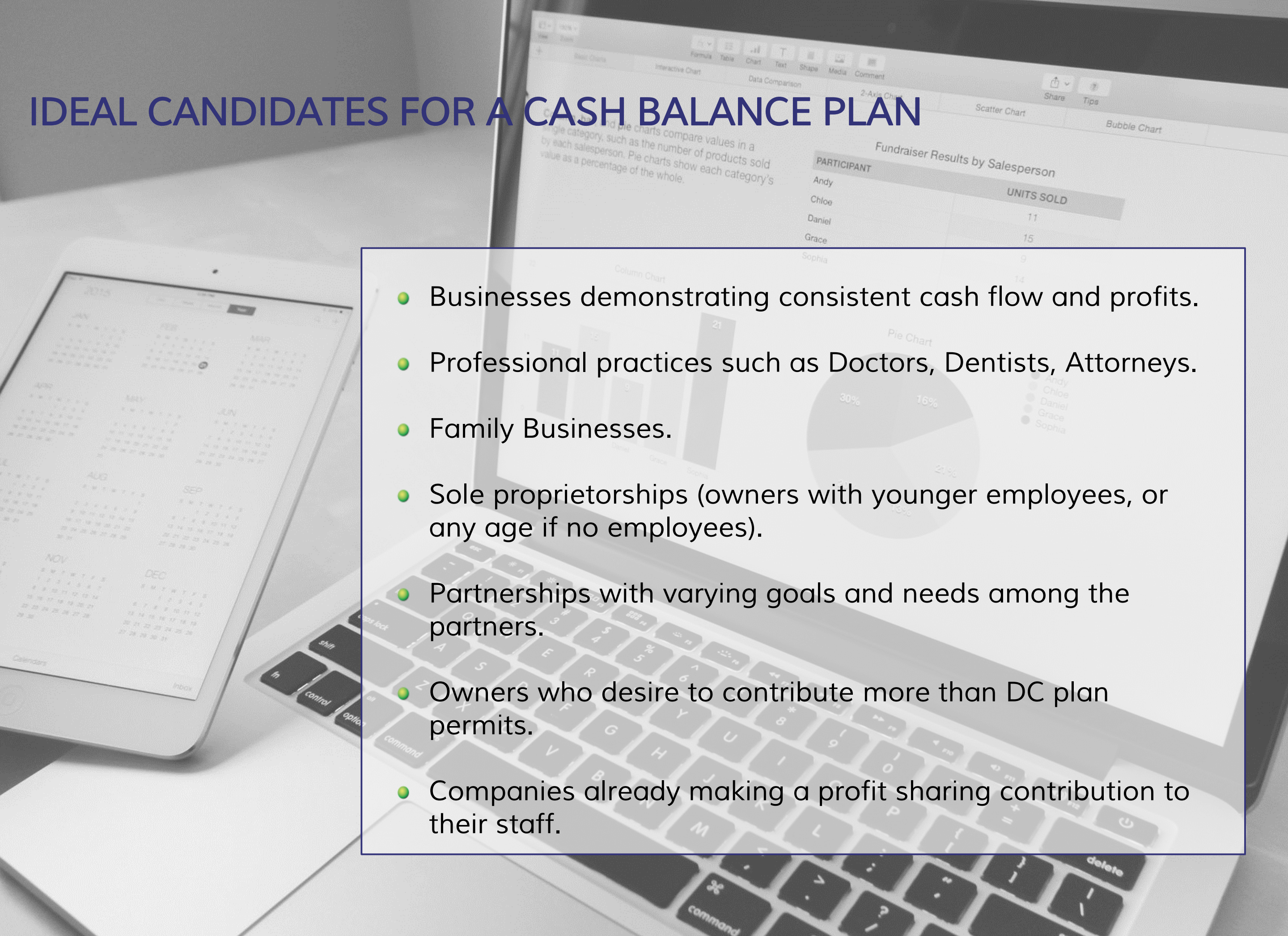
- Payable as a lump sum at retirement or termination (annuities also available).

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.
- Helps differentiate yourself. Expands your referral network.
- Assets in Cash Balance plans can grow quickly. Common for annual required contributions to be greater than $200,000 per owner.
- Can provide large benefits for select employees (approximately $2.5m to $3.0m for each owner at retirement).



IDEAL CANDIDATES 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 DC plan permits.
- 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' hypothetical account balances.
- 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 (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	$63,500	$277,000	$320,100
60	$63,500	$266,000	$309,100
55	$63,500	$207,000	$250,100
50	$63,500	$162,000	$205,100
45	$57,000	$126,000	$162,600
40	$57,000	$ 98,000	$134,600
35	$57,000	$ 77,000	$113,600

* 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	$285,000	$26,000	$17,100	$114,000	$157,100
Spouse	55	50,000	26,000	3,000	20,000	49,000
Subtotal		**$335,000**	**$52,000**	**$20,100**	**$134,000**	**$206,100**
				(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		**$455,000**	**$52,000**	**$27,300**	**$136,400**	**$215,700**
Percent of total contributions to owner and spouse (includes 401k):						**95.5%**

Q & A

- **Can Cash Balance plans be offered in addition to 401(k) Profit Sharing plans?**
  Answer: Yes, the employer can offer a combination of qualified retirement plans in order to produce a larger contribution.

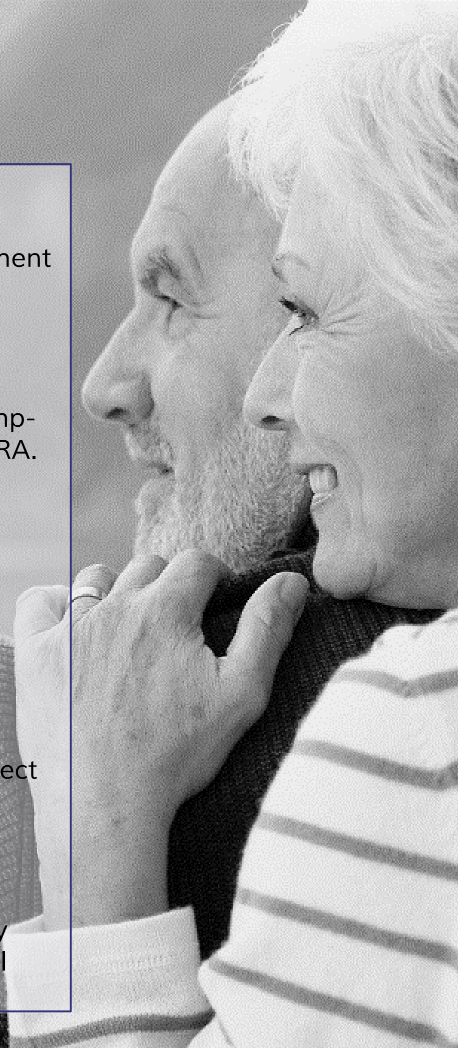
- **What are the distribution options upon retirement or if leaving the employer?**
  Answer: Any vested account in a Cash Balance Plan can be paid a lump-sum distribution or annuity. Lump sums are usually rolled over to an IRA.

- **Must everyone participate equally in the Cash Balance plan?**
  Answer: No. Each participant can have a different contribution level.

- **Can Cash Balance contributions change?**
  Answer: Yes, but with restrictions. In addition, a plan can 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 annual nondiscrimination testing.

- **How do design and administrative costs compare with 401(k) Profit Sharing plans?**
  Answer: They are higher because the plan is maintained by an actuary who certifies each year that the plan is in compliance with the Internal Revenue Code.



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