

## Cash Balance Plan - Overview

### OVERVIEW

A Cash Balance Plan is a type of Defined Benefit Plan. It is not an Individual Account Plan (Defined Contribution Plan) since each participant's benefits are not determined by the performance of the assets held in an individual account for that participant. However, it looks a lot like an Individual Account Plan (such as a Profit Sharing Plan) because the benefits are related to a Hypothetical Cash Balance Account. Because a Cash Balance Plan exhibits some characteristics of both Defined Benefit Plans and Defined Contribution Plans, it is often called a hybrid plan.

### NEW COMPARABILITY CASH BALANCE PLANS

While most Cash Balance Plans have a uniform formula for allocating employer contributions, a New Comparability Cash Balance Plan uniquely targets specified participants (business owner and/or other key employees) for specified allocation amounts, while other employees receive a uniform allocation level. The overall allocation is chosen so that the resulting benefits pass the general nondiscrimination tests required under IRC 410(b) and 401(a)(4).

This formula structure is the same as is used for New Comparability Profit Sharing Plans. The difference is that the Cash Balance Plan is in fact a Defined Benefit Plan, and can permit much larger benefit levels than is possible under the \$55,000 Profit Sharing Plan limits.

### ARE YOU A CANDIDATE FOR A CASH BALANCE PLAN?

A New Comparability Cash Balance Plan is most useful when the following criteria are met:

- The contribution/benefit goals of the employer are higher than permitted by a 401(k)/profit sharing plan
- Employer income and cash flows are stable or growing
- The employer desires to target owners/key employees to receive higher benefit levels than the general staff
- Targeted owners/key employees are approaching retirement age
- The staff is younger than the targeted owners/key employees

### CONTACT US FOR A CUSTOMIZED PROPOSAL

## DCDB Combination Plans

A **Defined Contribution/Defined Benefit Combination Plan** or **DCDB Combo Plan** allows the plan sponsor to offer a two-tiered approach to saving for retirement. In a DCDB Combo Plan design a retirement benefit level is established in the defined benefit plan based on age, service and/or compensation. This benefit is then coordinated or offset with an employer contribution into the defined contribution plan (401(k)/profit sharing plan).

This plan design can produce dramatic tax savings for the employer and allow the business owner and/or key employees to receive significant retirement benefits. This design also offers affordable staff funding costs for even large employers.

### ARE YOU A CANDIDATE FOR A DCDB COMBO PLAN?

- Owner Age 45 plus
- Owner Compensation over \$150,000
- Stable/Reliable Business Income
- Desire substantial tax savings
- Need to rapidly grow retirement savings
- Desire to protect assets from creditors
- Owner looking to monetize the business or create a succession plan
- Desire an affordable staff funding level (even for large employers)

### CONTACT US FOR CUSTOMIZED PROPOSAL



### Sample Company USA

#### Retirement Plan Illustration for the Plan Year Ending 12/31/2018 Safe Harbor 401(k) + New Comparability Cash Balance Combo Plan

Employee Name	DOB	DOH	Plan Comp	HCE/Key	Employee Deferral		Safe Harbor <sup>1</sup> Non-Elective		Employer Profit Sharing		Cash Balance Plan		Employer Total		Total Contribution	
					\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Owner 1	1/1/67	1/1/04	275,000	Y/Y	24,500	9.25%	-	0.00%	7,950	3.00%	135,000	50.94%	142,950	53.94%	167,450	63.19%
Owner 2	5/3/70	11/1/05	275,000	Y/Y	18,000	6.79%	-	0.00%	7,950	3.00%	120,000	45.28%	127,950	48.28%	145,950	55.08%
Group A Totals			550,000		42,500		-		15,900		255,000		270,900		313,400	
Staff 1	9/29/93	3/11/13	22,391	N/N	-	0.00%	672	3.00%	672	3.00%	448	2.00%	1,791	8.00%	1,791	8.00%
Staff 2	2/8/83	4/17/13	27,704	N/N	-	0.00%	831	3.00%	831	3.00%	554	2.00%	2,216	8.00%	2,216	8.00%
Staff 3	4/3/92	3/28/11	27,698	N/N	1,200	4.33%	831	3.00%	831	3.00%	554	2.00%	2,216	8.00%	3,416	12.33%
Group B Totals			77,793		1,200		2,334		2,334		1,556		6,224		7,424	
Company Totals			627,793		43,700		2,334		18,234		256,556		277,124		320,824	

Tax Analysis	
Total Owner Contribution	319,624
Est. Owner Tax Rate	37.0%
Est. Owner Tax Savings	118,261
Staff Contribution (Non-Owner)	6,224
Tax Savings After Staff Contribution	112,037

Contributions to Owners	270,900	97.8%	313,400	97.7%
Contributions to Staff	6,224	2.2%	7,424	2.3%

**Assumptions:**

Eligibility equals Age 21 and One Year of Service (12 Months and 1,000 Hours) with Semi-Annual plan entry dates (1/1 and 7/1).

Highly Compensated Employee (HCE) defined as greater than 5% owners, certain family members of greater than 5% owners and/or employees earning over \$120,000 in 2017.

Key Employee defined as any employee that is a greater than 5% owner, a greater than 1% owner with annual compensation in excess of \$150,000 or any officer receiving compensation in excess of \$175,000.

**Notes:**

(1) Safe Harbor Non-Elective contribution equals 3% of plan compensation to all Non-HCE. Contribution subject to full and immediate vesting.

### Plan Design Produces Significant Tax Savings and Retirement Benefits for the Business Owners DCDB Combo Plan Design Imposes an Annual Contribution Requirement on the Plan Sponsor