

# Cash Balance Pension Plans

Presented by

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Examples used in this material are hypothetical and for illustrative purposes only. They are not predictions or guarantees of actual results and may not reflect future events or outcomes.

# What is a Cash Balance Plan?

- ✓✓ Tax-favored, qualified retirement plan<sup>1</sup>
- ✓✓ Sometimes called 'Hybrid' plans due to look, feel and portability
- ✓✓ Accounts grow in two ways:
  - ✓✓ Employer Contributions
  - ✓✓ Interest Credit
- ✓✓ Employer contributions determined by formula
- ✓✓ Interest credit tied to benchmark<sup>2</sup> or documented in the Plan<sup>3</sup>
- ✓✓ Eligible distributions can be rolled over into an IRA or another qualified retirement plan

1: <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/cash-balance-pension-plans>

2: e.g. 30-year Treasury rate or GATT rate

3: e.g. stated flat 5% interest credit



# Considerations

- ✓ Requires an Actuary
- ✓ Non-owner and staff contributions in the range of 5%-7.5% of pay<sup>1</sup>
- ✓ In most cases, Cash Balance Plan works in conjunction with 401(k) PSP
- ✓ Individual Lifetime IRS Maximum 415 limit
- ✓ Permanency to the Plan, required contributions
- ✓ Minimum participation levels<sup>2</sup>
- ✓ PBGC coverage (some plans are exempt)
- ✓ 3 Year Cliff Vesting Schedule

1: Assumptions required to get owner to maximum

2: Lesser of 1) 40% of eligible employees or 2) 50 total employees

# Top Advantages

- ✓ Tax-deductible contributions with tax-deferred growth
- ✓ Tax savings considerably outweigh the cost of operating a Defined Benefit Plan
- ✓ Plan funding due with business tax return due-date
- ✓ Squeeze 20 years of savings into 10 years
- ✓ Incentive to attract, reward and retain talent in the workforce
- ✓ Shelter from creditors in the event of bankruptcy or lawsuit

# Cross-Tested Contributions with Profit Sharing Plan

- ✔✔ New comparability design
- ✔✔ Gateway testing

Employee	Age	Compensation	Flat Dollar	Pro Rata	Integrated	Age Weighted	New Comparability
Owner A	48	\$360,000.00	\$72,000.00	\$72,000.00	\$72,000.00	\$72,000.00	\$72,000.00
Owner B	60	\$360,000.00	\$72,000.00	\$72,000.00	\$72,000.00	\$72,000.00	\$72,000.00
Employee A	43	\$80,000.00	\$72,000.00	\$16,000.00	\$12,000.00	\$10,000.00	\$4,000.00
Employee B	50	\$80,000.00	\$72,000.00	\$16,000.00	\$12,000.00	\$17,000.00	\$4,000.00
Employee C	32	\$80,000.00	\$72,000.00	\$16,000.00	\$12,000.00	\$2,000.00	\$4,000.00
<b>Totals:</b>		\$960,000.00	\$360,000.00	\$192,000.00	\$180,000.00	\$167,689.47	\$156,000.00
		<b>% to Owner Group</b>	<b>40.00%</b>	<b>75.00%</b>	<b>80.00%</b>	<b>83.00%</b>	<b>92.00%</b>

# Annual Maximum Contribution Limits

## By Age

Age	401(k) Only	401(k) w/ PS	Cash Balance	Total	Tax Savings*
64-70	\$32,500.00	\$80,000.00	\$362,000.00	\$442,000.00	\$176,800.00
60-63	\$35,750.00	\$83,250.00	\$343,000.00	\$426,250.00	\$170,500.00
55-59	\$32,500.00	\$80,000.00	\$279,000.00	\$359,000.00	\$143,600.00
50-54	\$32,500.00	\$80,000.00	\$218,000.00	\$298,000.00	\$119,200.00
45-49	\$24,500.00	\$72,000.00	\$169,000.00	\$241,000.00	\$96,400.00
40-44	\$24,500.00	\$72,000.00	\$132,000.00	\$204,000.00	\$81,600.00
35-39	\$24,500.00	\$72,000.00	\$103,000.00	\$175,000.00	\$70,000.00
30-34	\$24,500.00	\$72,000.00	\$80,000.00	\$152,000.00	\$60,800.00

# Annual Participant Statement

## Year 1

Beginning Balance	\$0.00
Contribution Credit	\$100,000.0
Interest Credit	5.0%
<b>Ending Balance</b>	<b>\$100,000.00</b>
Vested Percentage	0%
Vested Balance	\$0.00

## Year 2

<b>Beginning Balance</b>	<b>\$100,000.00</b>
Contribution Credit	\$100,000.0
Interest Credit	5.0%
<b>Ending Balance</b>	<b>\$205,000.00</b>
Vested Percentage	0%
Vested Balance	\$0.00

## Year 3

<b>Beginning Balance</b>	<b>\$205,000.00</b>
Contribution Credit	\$100,000.0
Interest Credit	5.0%
<b>Ending Balance</b>	<b>\$315,250.00</b>
<b>Vested Percentage</b>	<b>100%</b>
<b>Vested Balance</b>	<b>\$315,250.00</b>

# Ideal Candidates

Demographics of each company can impact plan design results.

We have had success in designing Cash Balance plans for a wide variety of companies from various industries.

Successful professional service organizations:

- Professional Service Firms – Attorneys, Accountants
- Financial Firms – Private Equity, Venture Capitalists, Hedge Funds, Wealth

Managers

- Technology Firms – Software Designers, Application Developers
- Real Estate – Developers, Builders, Brokers
- Design Firms – Interior Design, Architects, Engineers
- Family held businesses

# Questions?



