Cash Balance Plan Successes

Content provided by:

Many owners desire larger tax deductions and accelerated retirement savings. Implementing a cash balance plan may be the best solution for such owners. Recent legislation encourages more and more professionals and successful business owners to adopt this type of plan.

In a cash balance plan, a "theoretical" account balance (or "TAB") is maintained on behalf of each participant. Thus, each participant in the cash balance plan has a TAB that resembles those in a 401(k) or profit sharing plan (defined contribution "DC" plans).

On an annual basis the TAB is credited with a "compensation credit" and an "interest credit". The compensation credit can be a flat dollar amount or a percentage of pay and can vary by employee. The interest credit is determined by the plan document, and will typically be a fixed rate no higher than 5% or, alternatively, could be based on a conservative index, such as the rate on 30-year U.S. Treasury Securities.

Because the cash balance plan is communicated in terms of an "account balance", the benefits provided are more easily understood, and appreciated by employees. Cash balance plans take the mystery out of the employee benefit plan.

Finally, cash balance plans are more predictable than traditional defined benefit plans; a participant's account balance can be projected based on plan provisions to a future date with relative ease, no more special calculations or vague explanations. Read below for just a few examples of successful cash balance plan designs.

Bell, Inc.

Bell, Inc. is a small professional firm that has a 401(k) profit sharing plan. Tim, the owner, was able to maximize his benefit at $52,000 with a cost for his six employees of $15,500. Celebrating his 50th birthday in 2014, Tim looked forward to retirement but understood that he needed to put away more than $52,000 per year to have the retirement of his dreams. We implemented a cash balance plan in 2014. The design enabled Tim to contribute $154,500 toward his own retirement with a cost for his employees of $28,000. So, while his employee costs almost doubled, Tim's contributions almost tripled.

Dr. Tony

Dr. Tony just brought a new, younger partner, Dr. Greg, on board. The discussions regarding the addition of a cash balance plan were difficult at first because Dr. Greg was not ready to seriously save for retirement. (He was worried about paying back medical school loans.) We designed the plan that allowed Dr. Tony to put $180,000 in the cash balance plan while Dr. Greg's contribution was $60,000 (a number in his comfort range). Their defined contribution plan contributions were maximized and the cost for their 14 employees was 10.5% of compensation. Eighty-eight percent (88%) of the contributions to the plan were for the benefit of Dr. Tony and Dr. Greg. This was the exact plan design they had hoped for.

A Larger Firm

Cash balance plans are not just for small companies. One medical association has 86 physician-owners and over 600 employees. The plan design calls for various levels of cash balance contributions to the doctors and a de minimis contribution for the employees. Combined contributions to the defined contribution plan and the cash balance plan are over $10 million with the amount allocated to the physician-owners approaching 80%.

These are just a few examples of the versatility of cash balance plan design. If this sounds interesting to you, please contact us. Let us build a retirement plan that is as unique as you are!

Employee Benefits Consultants, Inc.

PO Box 510927 | St. Louis, MO 63151 | (314) 650-3346