

BOETGER

401(k) | Actuarial | Administration

*A Definiti Company*



Is a Cash Balance Plan Right for You?

# Introduction

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- Today's Focus is on Plans for Professional Firms and Highly Successful Companies
- A Pension Plan that looks like a Defined Contribution Plan
- Cash Balance Plans Can Offer Significant Tax-Deductible Contributions
- Can be Used to Accumulate Funds Rapidly
- Plan Design Can be Rather Flexible
- Important to Understand Cash Balance Plans and their Implications
- Financial Advisor Input is Essential



# Background: Two Types of Plans

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There are Two Types of Retirement Plans –

**Defined Contribution Plans:** 401(k), Profit Sharing, Money Purchase

**Defined Benefit Plans:** Provides a Monthly Benefit or  
Cash Balance Account at Retirement



# Background: Different Limitations

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There are Different Government limitations for each Plan Type  
(Code Section 415)

## **Defined Contribution Plans:**

- Annual Additions of \$57,000 for 2020 (increasing to \$58,000 for 2021)
- Includes Salary Deferral 401(k) contributions of \$19,500
- Employer Matching Contributions
- Employer Safe Harbor Contributions
- Employer Profit Sharing (discretionary) Contributions
- Employee Age 50 Catch-up contributions of \$6,500 are in addition



# Background: Different Limitations

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There are Different Government limitations for each Plan Type  
(Code Section 415):

## **Defined Benefit Plans:**

- \$230,000 in Annual Pension Benefits
- Never more than 100% of Three-Year Average Compensation
- Must earn over at least a 10-Year Period



# Concept: Present Values

Illustration of a Traditional Pension Plan Formula

Pension Liability Illustration					
	Owner	Employee 1	Employee 2	Employee 3	Total
Annual Pay	\$200,000	\$45,000	\$30,000	\$25,000	\$300,000
Age	60	35	40	25	
Plan Benefit Formula – 2.5% of Monthly Pay per Year of Service	\$416.67	\$93.75	\$62.50	\$52.08	\$625.00
Illustrative Funding Value	\$56,079	\$3,726	\$3,170	\$1,271	\$64,246
Assumed Effective Interest Rate	5%	5%	5%	5%	5%
Percent of Total Deposit	87%	6%	5%	2%	100%

# Plan Design: How We Begin

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## **Plan of Choice is Typically a 401(k) Plan**

- Commonly with Safe Harbor Employer Contributions,
- An Employer Match, and
- A Discretionary Profit-Sharing Feature.

## **But What If....**

- You are Very Successful,
- Your Income is Predictable,
- You want to Increase Income Tax Deductions, and / or
- You are Behind on your Retirement Savings Goals?

**That's When You Consider a Cash Balance Plan!**



# Case Study #1: Successful Small Business

- Female Owned Small Successful Business
- Spouse Assists with Business and has been added to Payroll
- Both are Age 50
- They have not Accumulated Significant Retirement Plan Assets
- They have taken little W-2 Earnings with Higher Sub S Distributions
- They are Wondering what they can do to Accumulate Retirement Savings



# Plan Design: What About a 401(k) Plan

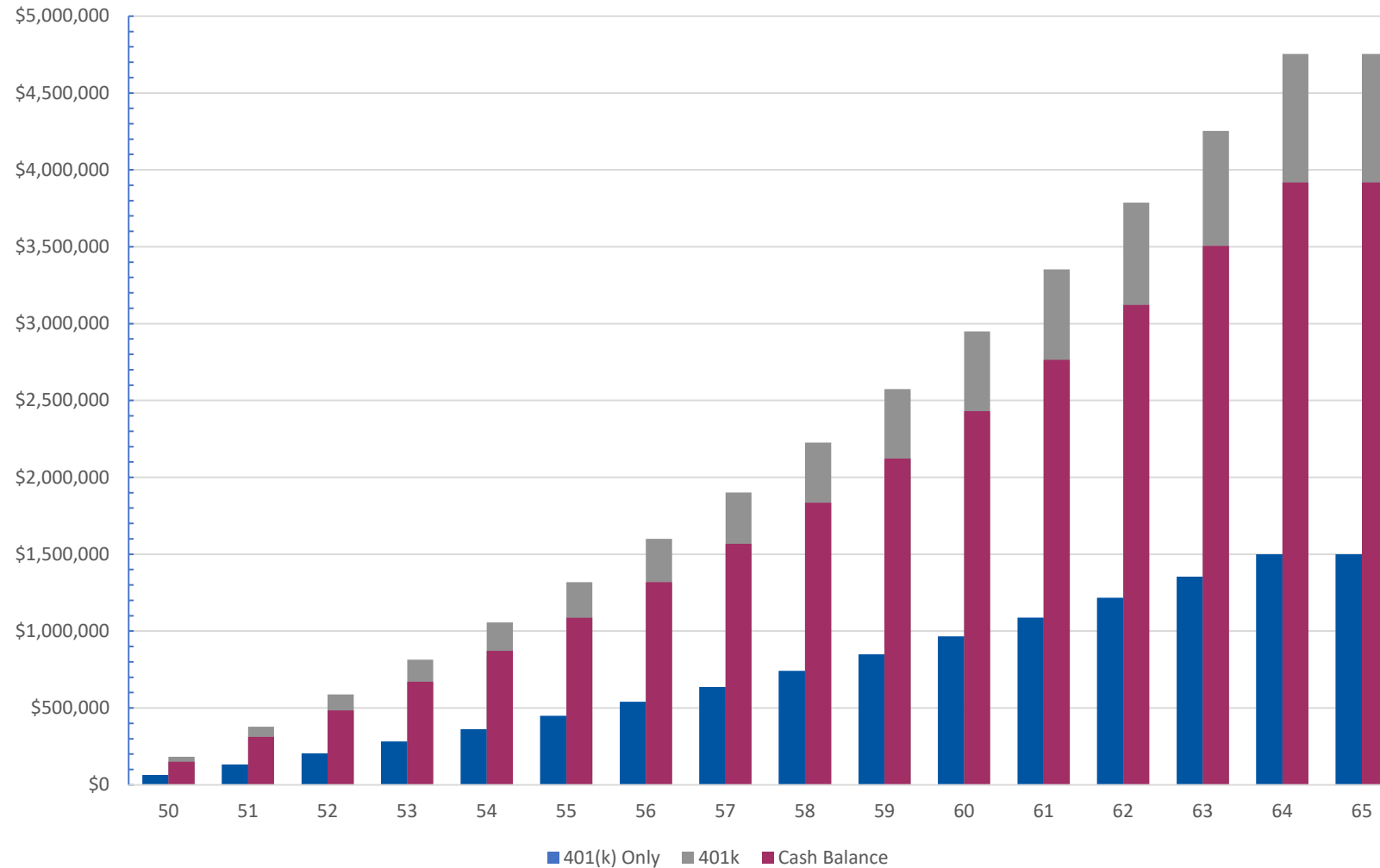
401(k) Plan						
Age	401(k) Salary Deferral	Age 50 Catch-Up Contribution	Maximum Employer Profit Sharing	Total Defined Contribution	7.5% Illustrative Invest. Return	Illustrative Account Balance
50	\$ 19,500	\$ 6,500	\$ 37,500	\$ 63,500	\$ -	\$ 63,500
51	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 3,810	\$ 131,810
52	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 7,909	\$ 204,219
53	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 12,253	\$ 280,972
54	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 16,858	\$ 362,330
55	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 21,740	\$ 448,570
56	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 26,914	\$ 539,984
57	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 32,399	\$ 636,883
58	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 38,213	\$ 739,596
59	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 44,376	\$ 848,472
60	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 50,908	\$ 963,880
61	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 57,833	\$ 1,086,213
62	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 65,173	\$ 1,215,886
63	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 72,953	\$ 1,353,339
64	\$ 19,500	\$ 6,500	\$ 38,500	\$ 64,500	\$ 81,200	\$ 1,499,039
65	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,499,039

# Plan Design: 401(k)/Cash Balance Combination

401(k) Plan						
Age	401(k) Salary Deferral	Age 50 Catch-Up Contribution	6% of Pay Employer plus 3% Safe Harbor	Total Defined Contribution	7.5% Illustrative Invest. Return	Illustrative Account Balance
50	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ -	\$ 32,000
51	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 2,400	\$ 66,400
52	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 4,980	\$ 103,380
53	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 7,754	\$ 143,134
54	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 10,735	\$ 185,869
55	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 13,940	\$ 231,809
56	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 17,386	\$ 281,194
57	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 21,090	\$ 334,284
58	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 25,071	\$ 391,355
59	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 29,352	\$ 452,707
60	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 33,953	\$ 518,660
61	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 38,899	\$ 589,559
62	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 44,217	\$ 665,776
63	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 49,933	\$ 747,709
64	\$ 19,500	\$ 6,500	\$ 6,000	\$ 32,000	\$ 56,078	\$ 835,788
65	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 835,788

Cash Balance Pension Plan		
Employer Contribution	5% Interest Credit	Ending Account Balance
\$ 150,000	\$ -	\$ 150,000
\$ 150,000	\$ 11,250	\$ 311,250
\$ 150,000	\$ 23,344	\$ 484,594
\$ 150,000	\$ 36,345	\$ 670,938
\$ 150,000	\$ 50,320	\$ 871,259
\$ 150,000	\$ 65,344	\$ 1,086,603
\$ 150,000	\$ 81,495	\$ 1,318,098
\$ 150,000	\$ 98,857	\$ 1,566,956
\$ 150,000	\$ 117,522	\$ 1,834,477
\$ 150,000	\$ 137,586	\$ 2,122,063
\$ 150,000	\$ 159,155	\$ 2,431,218
\$ 150,000	\$ 182,341	\$ 2,763,559
\$ 150,000	\$ 207,267	\$ 3,120,826
\$ 150,000	\$ 234,062	\$ 3,504,888
\$ 150,000	\$ 262,867	\$ 3,917,755
\$ -	\$ -	\$ 3,917,755

# Plan Accumulations: How It Can Grow



# Case Study #2: Successful Law Firm

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- Two Owner Partners with W-2 at Maximum Allowable of \$285,000
- Several Highly Compensated Attorneys earning over \$130,000
- Qualified Staff of Administrative and Paralegals
- Goal is to Maximize Owner Employees
- Provide a Competitive Benefit for Staff

# Case Study #2: Successful Law Firm

Plan Design Illustration			
	Owner Employees	15 Highly Compensated Employees	10 Qualified Staff
Annual Pay	\$285,000	> \$130,000	\$60,000 Avg.
Cash Balance Plan	50% of Pay - \$142,500 each	Excluded	3.5% of Pay – \$2,100 each
Maximum Salary Deferrals into 401(k) Plan	\$19,500 plus catch up if applicable	\$19,500 plus catch up if applicable	\$19,500 plus catch up if applicable
401(k) 3% of Pay Safe Harbor Contribution	\$8,550 each	\$0 Excluded	\$1,800 each on average
401(k) Profit Sharing Contribution	\$0 Excluded	\$0 Excluded	2% of pay or \$1,200 each on average
Total Deposit	\$341,100 total	\$0	\$51,000 total

# Compliance Monitoring

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- Minimum Participation under 401(a)(26)
- Average Benefit Percentage Test under 410(b)-5(a)
- Minimum Allocation Gateway
- Rate Group Test under 401(a)(4)
- Combined Plan Limit under 404(a)(7)
- Top Heavy Status



# Important Items to Consider

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## **#1: Employee Demographics are Important**

Changes in a Company Workforce or Compensation can Impact the Plan Design. In general, it is better to have age disparities in the Plan with those you want to favor being older and more highly compensated.

## **#2: Monitor Plan Funded Status**

It is generally wise to keep the Plan well Funded on a Plan Termination Basis. Market fluctuations up or down will impact future contributions. Prefunding is acceptable within allowable limitations. Be careful of excess assets.

## **#3: It's a Defined Benefit Plan**

Most employees elect a lump sum benefit when they retire or terminate but they will also have the option of receiving a monthly payment. The benefit may be paid from Plan assets but sometimes an annuity purchase makes most sense in these situations.





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Boetger Retirement Plan Services is a Definiti company

Our experienced, combined Sales Team, Actuaries and Actuarial Consultants help in Plan Design

Together, we service over 600 Cash Balance / 401(k) Combination Plans nationwide





# If You Are Interested

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- Reach out to your Retirement Plan Consultant
- Provide us with Employee Census Information
- Define the Employer Objectives
- Discuss how much Flexibility an Employer has with W-2 Compensation
- We can Illustrate a Possible Design and Make Suggestions
- If suitable we can implement the Plan and Administer



Questions?

