



Cash Balance 101

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Today's Goals

Show you how to:

1. Explain how the ICR of the plan relates to the investments selected
2. Identify key similarities and differences between a Profit Sharing plan and a Cash Balance plan
3. Name 3 or 4 businesses that are typically a good fit for a Cash Balance plan.
4. Explain when and how the funding of a Cash Balance plan works



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6. Describe how actual investment returns in the current year affect the ability to contribute to the plan in the following year
7. After viewing sample company census data, determine if the entity is likely a solid candidate for a Cash Balance plan
8. Name the main distribution options

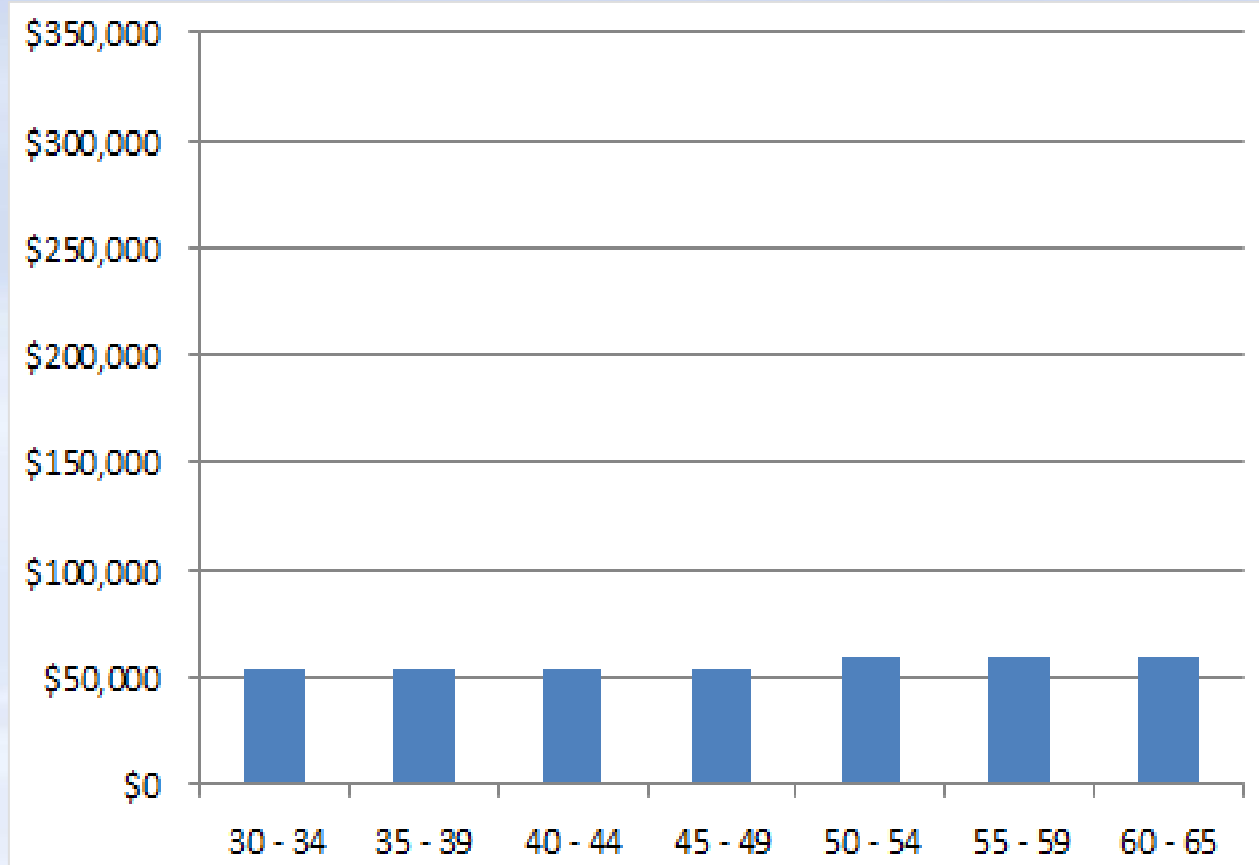




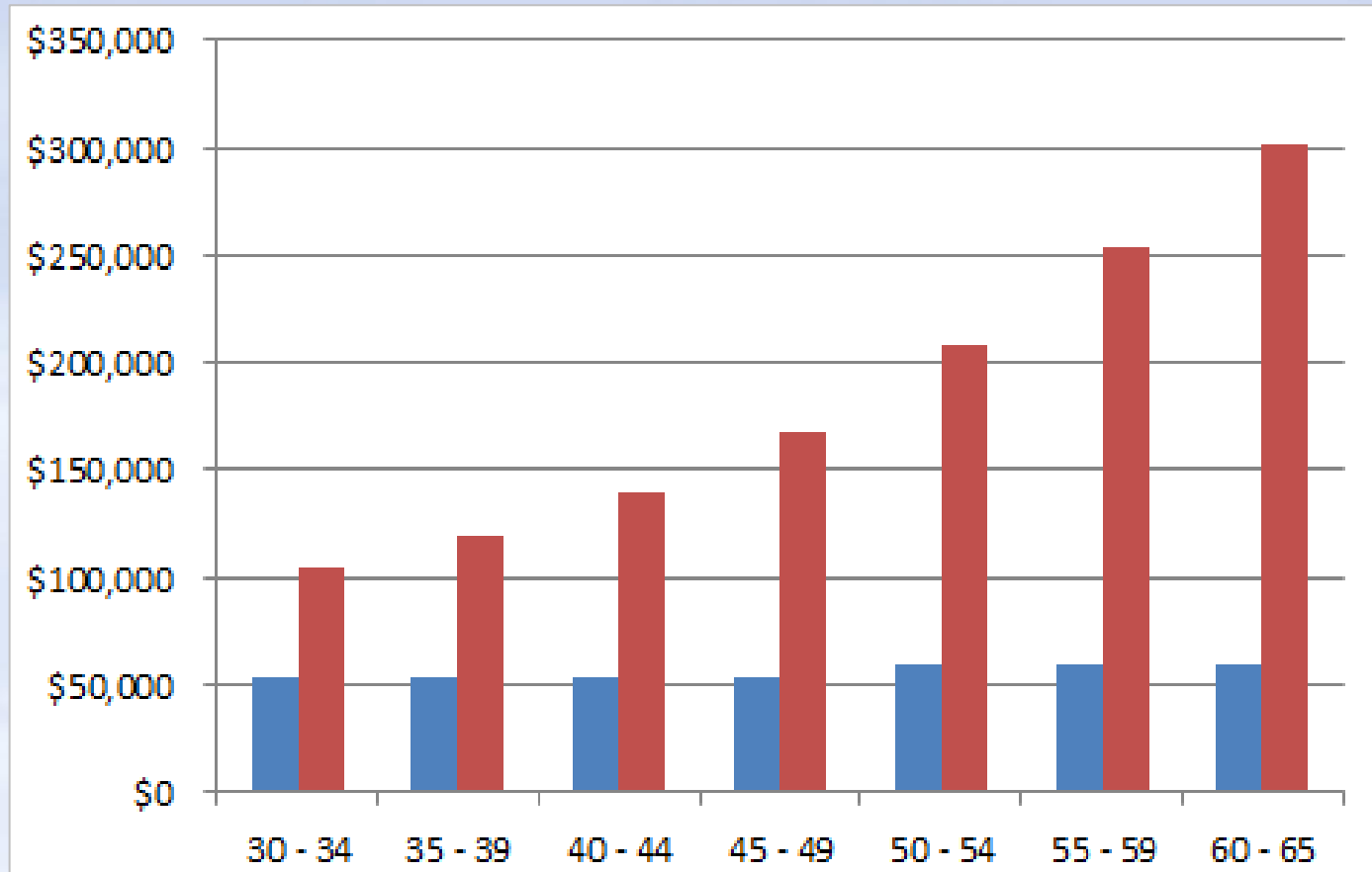


Why Cash Balance?

401(k) Profit Sharing Plan Max



401k, Profit Sharing + Cash Balance



2017 Contribution Limits Table

<u>Age</u>	<u>401(k) with Profit Sharing*</u>	<u>Cash Balance</u>	<u>TOTAL</u>	<u>Tax Savings**</u>
Above 65	\$60,000	\$251,000+	\$311,000+	\$139,950
65	\$60,000	\$251,000	\$311,000	\$139,950
64	\$60,000	\$257,000	\$317,000	\$142,650
63	\$60,000	\$263,000	\$323,000	\$145,350
62	\$60,000	\$268,000	\$328,000	\$147,600
61	\$60,000	\$254,000	\$314,000	\$141,300
60	\$60,000	\$241,000	\$301,000	\$135,450
59	\$60,000	\$228,000	\$288,000	\$129,600
58	\$60,000	\$217,000	\$277,000	\$124,650
57	\$60,000	\$205,000	\$265,000	\$119,250
56	\$60,000	\$195,000	\$255,000	\$114,750
55	\$60,000	\$184,000	\$244,000	\$109,800
54	\$60,000	\$175,000	\$235,000	\$105,750
53	\$60,000	\$166,000	\$226,000	\$101,700
52	\$60,000	\$157,000	\$217,000	\$97,650
51	\$60,000	\$149,000	\$209,000	\$94,050
50	\$60,000	\$141,000	\$201,000	\$90,450
49	\$54,000	\$134,000	\$188,000	\$84,600
48	\$54,000	\$127,000	\$181,000	\$81,450

Assets Are Creditor Protected



Plan Assets Are Portable



Understanding Tax Deductions

Above The Line Deductions

Most desirable type of deduction - Reduces AGI

- ✓ Cash Balance and other Qualified Retirement Plan Contributions

Below the Line Deductions

*Many limitations - Subject to phaseouts.**

- ✓ Charitable Contributions
- ✓ State Tax
- ✓ Property Taxes
- ✓ Mortgage Interest



**Subject to phase outs based on income > \$250,000 (Single) or >\$300,000(Married filing jointly)*

The New Federal Tax Protocol

2012 Rates

Investment Tax* = 0%

Highest income tax = 35%

Medicare tax** = 2.9%

Capital Gains/Dividend Tax = 15%

2017 Rates

Investment Tax* = 3.8%

Highest income tax = 39.6%

Surtax of .90% = 3.8%

Capital Gains/Div Tax = 23.8%

* Investment Income tax on all unearned income (interest, dividends, gains, rents & royalties, etc.)

**Medicare tax for individuals is 1.45%. Most company structures require an Employer matching amount of 1.45%. Most of these taxes applied on high wage earners earning >\$250k, agi, filing jointly.



Cash Balance 101

How Long Has CB Been Around?



1985

Bank of America



2006

*Pension
Protection Act*



2010

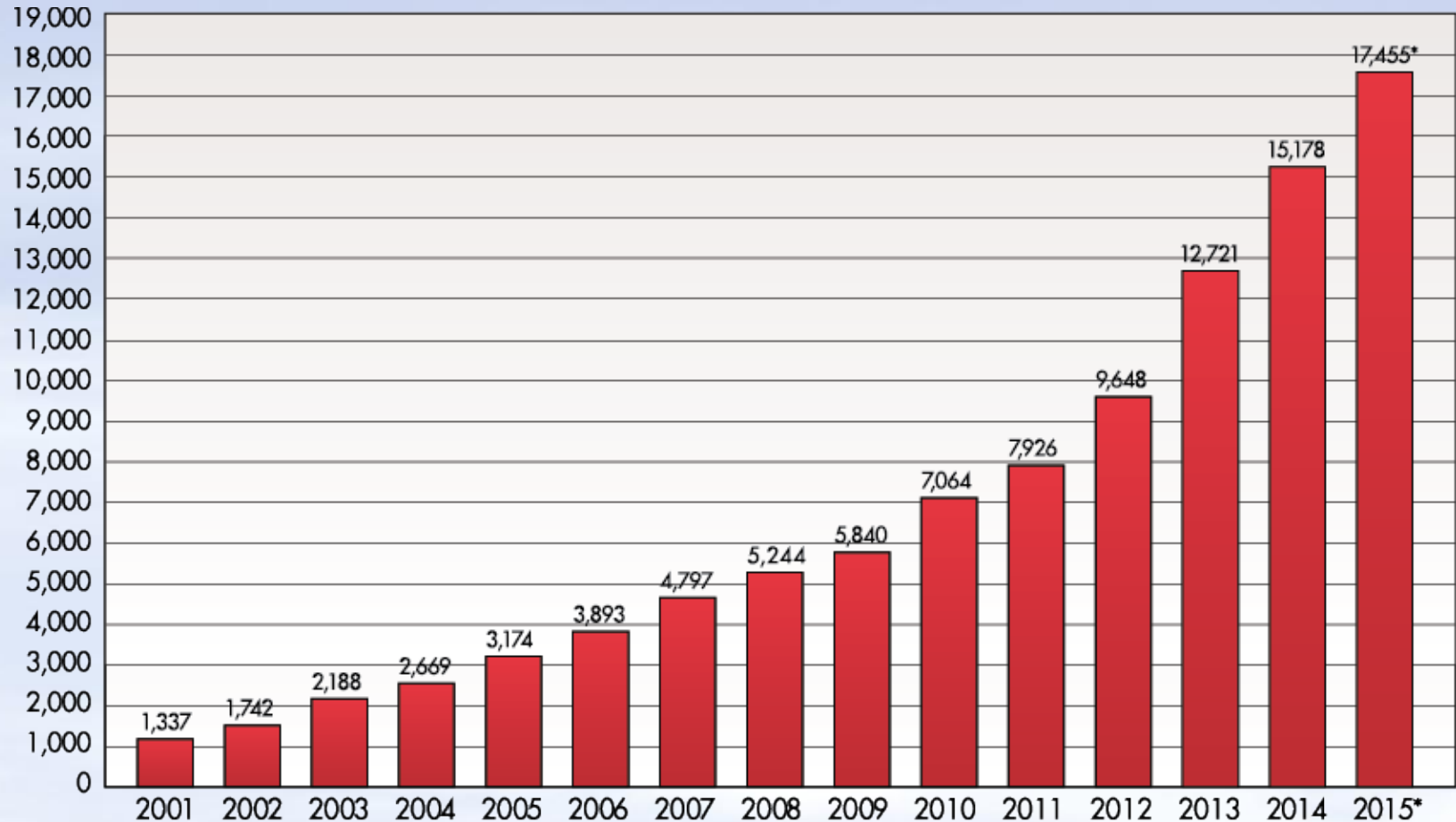
*DOL issues final
regulations*



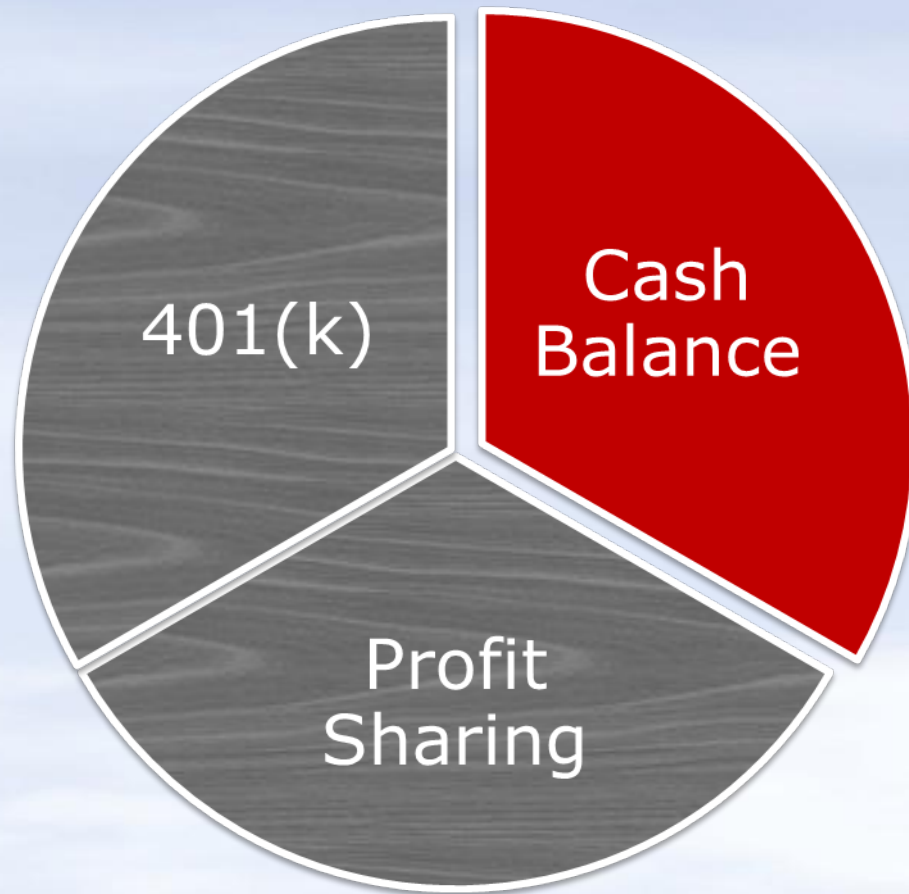
2014

*IRS finalizes
regulations*

Cash Balance Growth



* Projection based on current growth rates and industry data.



"Best of Both Worlds"

**Flexibility,
Portability,
Simplicity**

*401(k)
Profit Sharing*

***Cash
Balance***

Hybrid

**High Contribution
Limits: \$2.7 M
Lifetime Benefit**

*Traditional
Defined Benefit*

Contribution Limits

2017 Contribution Limits

401(k) Profit Sharing & Cash Balance Plans

<u>Age</u>	<u>401(k) with Profit Sharing</u>	<u>Cash Balance</u>	<u>TOTAL</u>	<u>Tax savings*</u>
60 - 65	\$60,000	\$256,000	\$316,000	\$142,200
55 - 59	\$60,000	\$206,000	\$266,000	\$119,700
50 - 54	\$60,000	\$157,000	\$217,000	\$97,650
45 - 49	\$54,000	\$120,000	\$174,000	\$78,300
40 - 44	\$54,000	\$92,000	\$146,000	\$65,700
35 - 39	\$54,000	\$70,000	\$124,000	\$55,800
30 - 34	\$54,000	\$54,000	\$108,000	\$48,600

**Assuming 45% tax bracket, taxes are deferred*

Typical Small Business



2 Owners

James Marshall	61	\$ 270,000
Tammy Marshall	56	65,000
Subtotals		\$ 335,000

4 Staff

Brandon Byrd	41	51,000
Jessica Jensen	34	41,000
Ryan Osler	27	34,000
Jimmy Bond	44	21,000

Common Plan - Maximize Owner

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Total Contribution</u>
2 Owners					
James Marshall	61	\$ 270,000	\$ 24,000	\$ 36,000	\$ 60,000
Tammy Marshall	56	65,000	\$ 24,000	\$ 9,750	33,750
Subtotals		\$ 335,000	\$ 48,000	\$ 45,750	\$ 93,750
4 Staff				5 % of pay	
Brandon Byrd	41	51,000		\$ 2,550	\$2,550
Jessica Jensen	34	41,000		\$ 2,050	2,050
Ryan Osler	27	34,000		\$ 1,700	1,700
Jimmy Bond	44	21,000		\$ 1,050	1,050

Add Cash Balance

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>
2 Owners					
James Marshall	61	\$ 270,000	\$ 24,000	\$ 36,000	\$0 to \$ 50,000
Tammy Marshall	56	\$ 65,000	\$ 24,000	\$ 9,750	\$0 to 50,000
Subtotals		\$ 335,000	\$ 48,000	\$ 45,750	\$ 100,000
4 Staff					
				5 % of pay	
Brandon Byrd	41	51,000		\$ 2,550	\$ 700
Jessica Jensen	34	41,000		\$ 2,050	\$ 700
Ryan Osler	27	34,000		\$ 1,700	\$ 700
Jimmy Bond	44	21,000		\$ 1,050	\$ 700

All Together

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>	<u>Total Contribution</u>
2 Owners						
James Marshall	61	\$ 270,000	\$ 24,000	\$ 36,000	\$0 to \$ 50,000	\$ 110,000
Tammy Marshall	56	\$ 65,000	\$ 24,000	\$ 9,750	\$0 to 50,000	83,750
Subtotals		\$ 335,000	\$ 48,000	\$ 45,750	\$ 100,000	\$ 193,750
4 Staff						
				<i>5 % of pay</i>		
Brandon Byrd	41	51,000		\$ 2,550	\$ 700	\$3,250
Jessica Jensen	34	41,000		\$ 2,050	\$ 700	2,750
Ryan Osler	27	34,000		\$ 1,700	\$ 700	2,400
Jimmy Bond	44	21,000		\$ 1,050	\$ 700	1,750
Subtotals		\$ 147,000		7,350	2,800	10,150
Grand Totals		\$ 482,000	\$ 48,000	\$ 53,100	\$ 102,800	\$ 203,900
Percent of Contribution to Owners:						95%

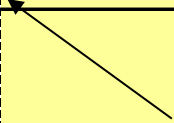
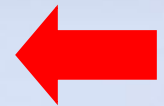
What If the Owners Want More?

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>
2 Owners		
James Marshall	61	\$ 265,000
Tammy Marshall	56	\$ 65,000



Maybe This is More on Target

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>	<u>Total Contribution</u>
2 Owners						
James Marshall	61	\$ 270,000	\$ 24,000	\$ 36,000	\$0 to \$ 254,000	\$ 314,000
Tammy Marshall	56	65,000	24,000	9,750	\$0 to 57,000	90,750
Subtotals		\$ 335,000	\$ 48,000	\$ 45,750	\$ 311,000	\$ 404,750
4 Staff						
				<i>7.5% of pay</i>		
Brandon Byrd	41	51,000		\$ 3,825	700	\$4,525
Jessica Jensen	34	41,000		\$ 3,075	700	\$3,775
Ryan Osler	27	34,000		\$ 2,550	700	\$3,250
Jimmy Bond	44	21,000		\$ 1,575	700	\$2,275



All Together

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>	<u>Total Contribution</u>	<u>Tax Savings*</u>
2 Owners							
James Marshall	61	\$ 270,000	\$ 24,000	\$ 36,000	\$0 to \$ 254,000	\$ 314,000	\$ 141,300
Tammy Marshall	56	65,000	24,000	9,750	\$0 to 57,000	90,750	40,838
Subtotals		\$ 335,000	\$ 48,000	\$ 45,750	\$ 311,000	\$ 404,750	\$ 182,138
4 Staff							
				<i>7.5% of pay</i>			
Brandon Byrd	41	51,000		\$ 3,825	700	\$4,525	
Jessica Jensen	34	41,000		\$ 3,075	700	\$3,775	
Ryan Osler	27	34,000		\$ 2,550	700	\$3,250	
Jimmy Bond	44	21,000		\$ 1,575	700	\$2,275	
Subtotals		\$ 147,000		11,025	\$2,800	13,825	6,221
Grand Totals		\$ 482,000	\$ 48,000	\$ 56,775	\$ 313,800	\$ 418,575	\$ 188,359

Percent of Contribution to Owners:

97%

Interest Crediting Rate Options

Safe Harbor Options:

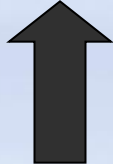

1. 30 year treasury rate
2. Fixed Rate: 4% to 6%



New Options:

1. Actual Rate of Return
 - a. Owner Only Plans

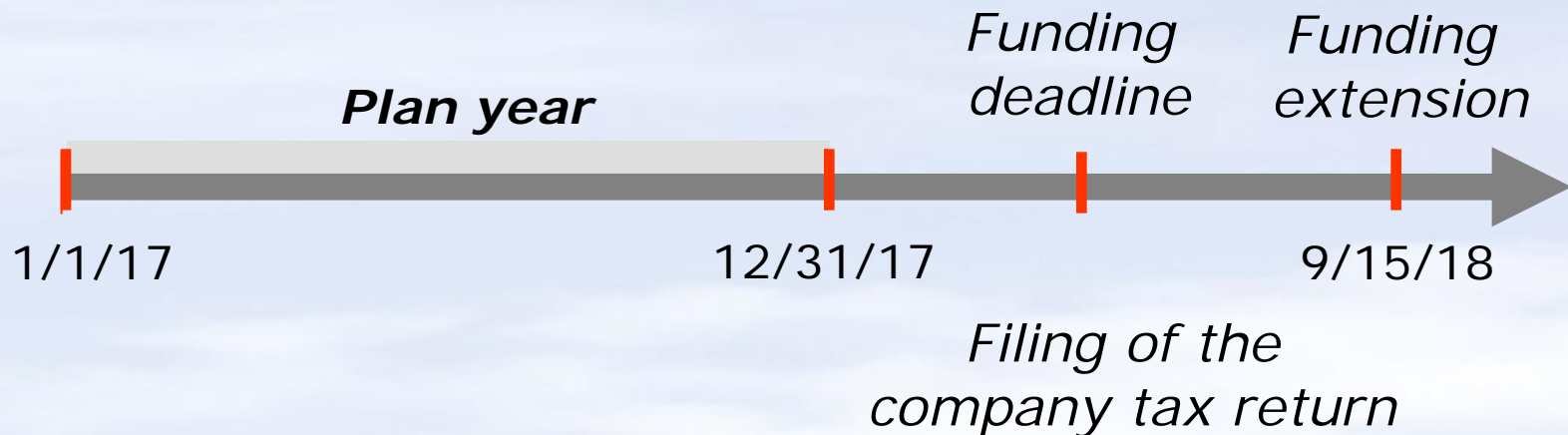


Plan Investments

Earnings  **Overfunded** 
eventually reduce contribution

Earnings  **Underfunded** 
eventually need to catch up

Funding of the Plan

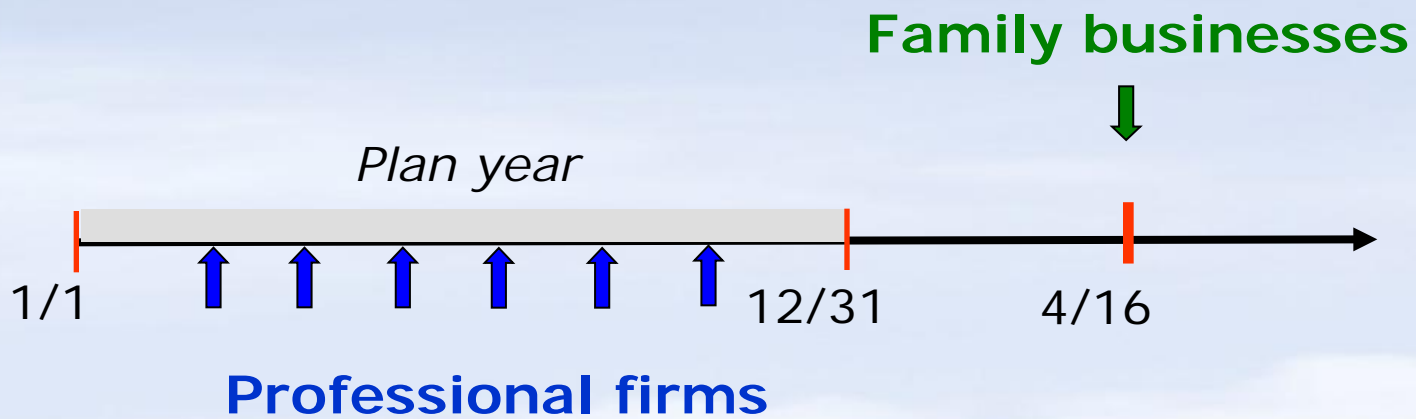




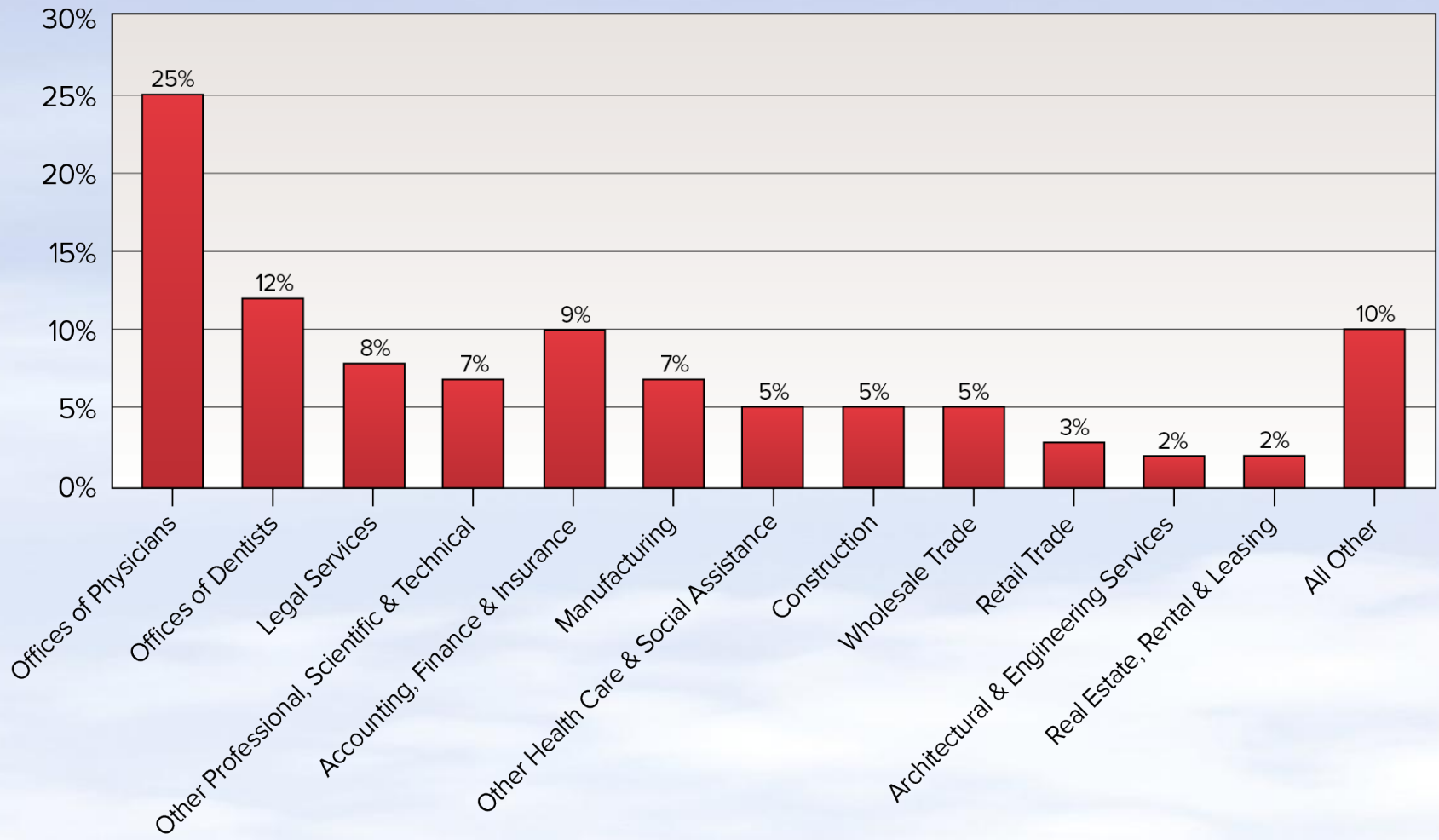
Withdrawal Options:

1. Age 62
2. Termination of employment
3. Retirement
4. Death
5. Disability
6. Plan Termination

Funding Trends



CB Plans by Business Type





Best Candidates

Who is Ideal?

“-Ologists”



Radiologists



Anesthesiologists

Who is Ideal?



Law firms

Who is Ideal?



Venture Capital/Financial Services

Who is Ideal?



Companies with 1 – 500 Partners

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8. Name the main distribution options



Questions?



Thank You

Please make sure you signed in

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