

CASH BALANCE RETIREMENT PLANS

MATTHEW P. O'NEIL CFP(R), ChFC(R)

DISCLAIMER

“These materials are provided for general information and educational purposes based upon publicly available information. from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.”

What is a cash balance plan?

While technically a defined benefit (pension) plan, it has the look and feel of a defined contribution plan. It is used in conjunction with a 401k profit sharing and safe harbor to allow ownership and/or groups of employees substantial pre-tax contributions.



NOTABLE DISTINCTIONS

- Contributions based on current earnings
- Interest Crediting Rate
- Vesting



401k vs. Cash Balance

1. Participation
2. Investment Risk
3. Federal Guarantee
4. Life Annuities



PLAN DESIGN

- Plan must be established by December 31st
- Funding is NOT due until tax filing
- Business outlook over the next 3-5 years
- What is ownerships goal with plan?
- MUST pass non discrimination testing



MAJOR BENEFITS

- ✓ **Asset Protection**
- ✓ **Portable**
- ✓ **SuperSize Savings/Catch Up**
- ✓ **Transparency**
- ✓ **Retain Key Staff / Succession**



Contribution Limits: 2024

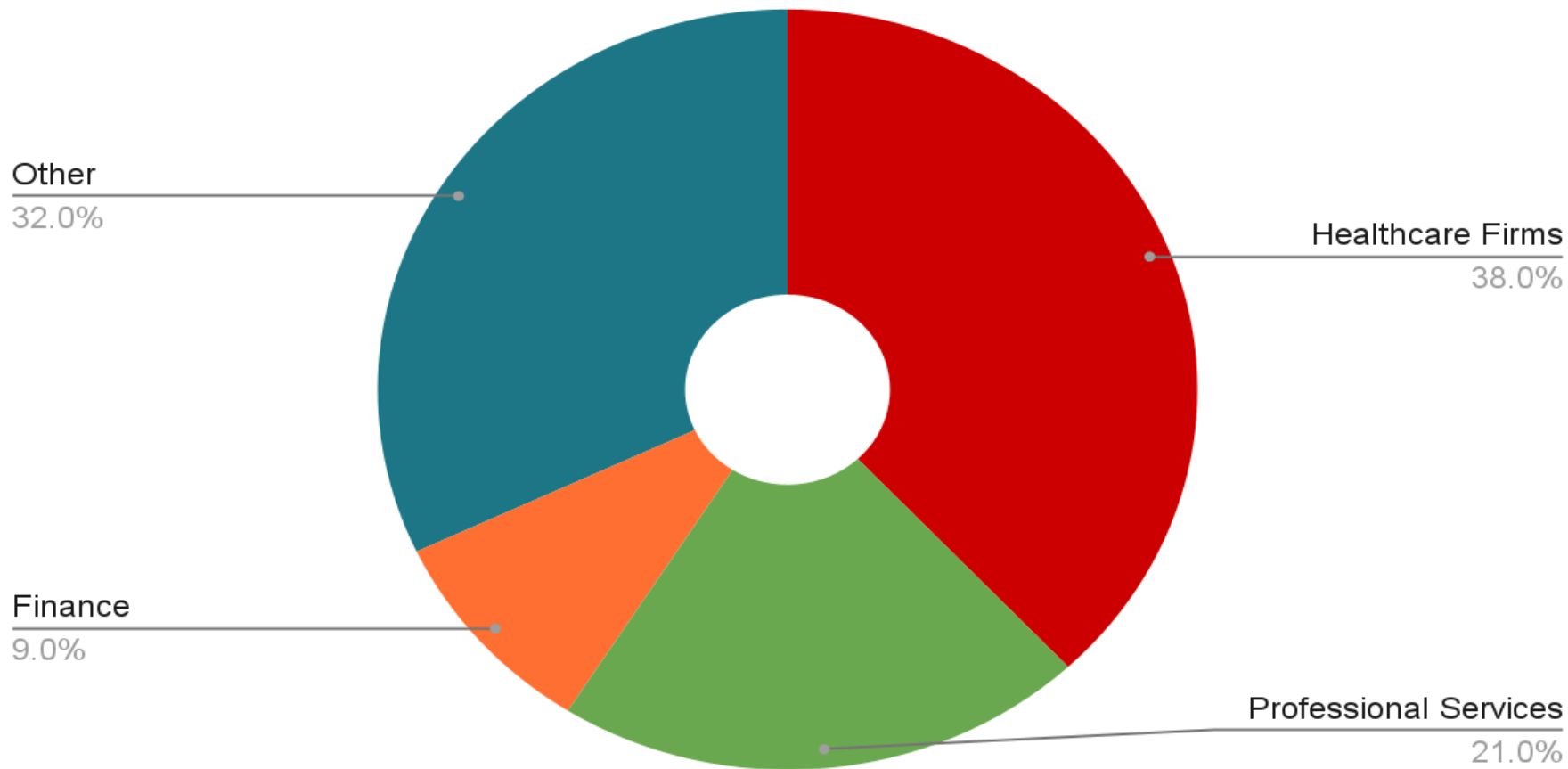
Age	401k Only	401k & P/S	Cash Balance	Total
66-70	\$30,500	\$76,500	\$376,000	\$452,500
60-65	\$30,500	\$76,500	\$336,000	\$412,500
55-59	\$30,500	\$76,500	\$274,000	\$350,500
50-54	\$30,500	\$76,500	\$214,000	\$290,500
45-49	\$23,000	\$69,000	\$167,000	\$236,500

IDEAL CANDIDATES

- Highly profitable businesses
- Successful solo firms - consultants, independent sale reps
- Owners with a desire to maximize retirement savings
- Staff/Partner ratio is low
- Owners/Partners looking to contribute more pre-tax dollars
- Best for individuals over the age of 45
- Self employed spouse with high income



Plans by Industry



UNSUITABLE CANDIDATES

- Companies looking for a ONE time contribution/ quick fix
- Owners/Partners looking for aggressive investments / high returns
- Fluctuating contribution amounts
- Cheapest / low cost options
- Non communicative



SUCCESSION TOOL

- Buyer gets peace of mind of a successful transition
- Shifts tax liability
- Seller receives a level of creditor protection
- Transferable asset
- Great option for family owned businesses

SUCCESSION TOOL CONSIDERATIONS

- **Stock vs. Asset Sale**
- **Seller's relationship post sale**
- **Buyer's cash flow**



WHY ADD TO YOUR PRACTICE

- Builds loyalty
- Stresses need for ongoing planning
- Referrals to other successful business owners
- Possible additional revenue



CASE STUDIES

Small Employer 1-10 employees

OBJECTIVE: Tax savings and Max benefit, control employee contributions

PROFILE: Small business owner with 3 employees

SOLUTION: Fund the Cash Balance plan for 7 years, until owner's age 60

<u>NAME</u>	<u>AGE</u>	<u>COMP</u>	<u>401k</u>	<u>SAFE HARBOR/PS</u>	<u>CASH BALANCE</u>	<u>ANNUAL CONTRIB.</u>
Owner	53	\$345,000	\$30,500	\$1,000	\$224,665	\$256,165
Employee 1	29	\$35,000		\$1,750	\$700	\$2,450
Employee 2	40	\$45,000		\$2,250	\$700	\$2,950
Employee 3	43	\$45,000		\$2,250	\$700	\$2,950

4 Partners with 0 employees

OBJECTIVE: Varying contributions by partner

PROFILE: Law firm with no employees

SOLUTION: Fund the Cash Balance plan for 5 years, revisit in third year

<u>NAME</u>	<u>AGE</u>	<u>COMP</u>	<u>CASH BALANCE</u>	<u>NOTE</u>
Partner 1	52	\$345,000	\$72,500	Wants to Save 25% of income
Partner 2	58	\$345,000	\$170,000	Wants to save \$170,000 per year
Partner 3	51	\$181,000	\$105,000	Doesn't need income, save more than 50%
Partner 4	42	\$345,000	\$35,000	Young family, needs cash flow

NAME	AGE	COMP	401K	PROFIT SHARING	CASH BAL	TOTAL CONTRIB	TAX SAVINGS
Group 1: OWNERS - 15 total							
Partner 1-15	45-70	\$345,000	\$23,000 - \$30,500	\$46,000	\$118,000 - \$368,000	\$187,000 - \$445,000	\$75,000 - \$178,000
SUBTOTAL		\$5,175,000	\$420,000	\$690,000	\$3,687,490	\$4,797,490	\$1,918,996
Group 2: Associates - 35 total							
			3%				
Associate 1-35	40-60	\$150,000		\$4,500	\$0		
Group 3: Employees - 60 total							
			7.5%				
Employees 1-60	23-66	\$20,000 - \$85,000		\$1,500 - \$6,375	\$0 - \$325	\$1,825 - \$6,375	
SUBTOTAL		\$7,137,910		\$299,092	\$27,793	\$326,885	\$130,754
Grand Total		\$12,312,910	\$420,000	\$989,092	\$3,715,283	\$5,124,375	\$2,049,750



Matt O'Neil

Matt@oneil-wealth.com

704.219.6820

www.oneil-wealth.com



