Cash Balance

MAXIMIZING YOUR RETIREMENT BENEFITS

A CASH BALANCE PLAN IS:

- A hybrid retirement plan designed to combine some of the best features of defined contribution and defined benefit plans.

- A defined benefit plan with much of the flexibility and portability of a defined contribution plan. The defined benefit characteristics allow for larger tax-deductible contributions and require minimum funding and a promise to pay benefits. Unlike traditional defined benefit plans, benefits are communicated as notional or hypothetical account balances and are easier for participants to understand.

HOW DOES IT WORK?

Hypothetical Account:

The employer makes annual contributions to the plan. Those contributions and interest are credited to participant hypothetical account balances.

Retirement Benefits:

The hypothetical account balance can be converted into a monthly benefit (annuity) payable at retirement or paid as a lump sum.

Pooled Investments:

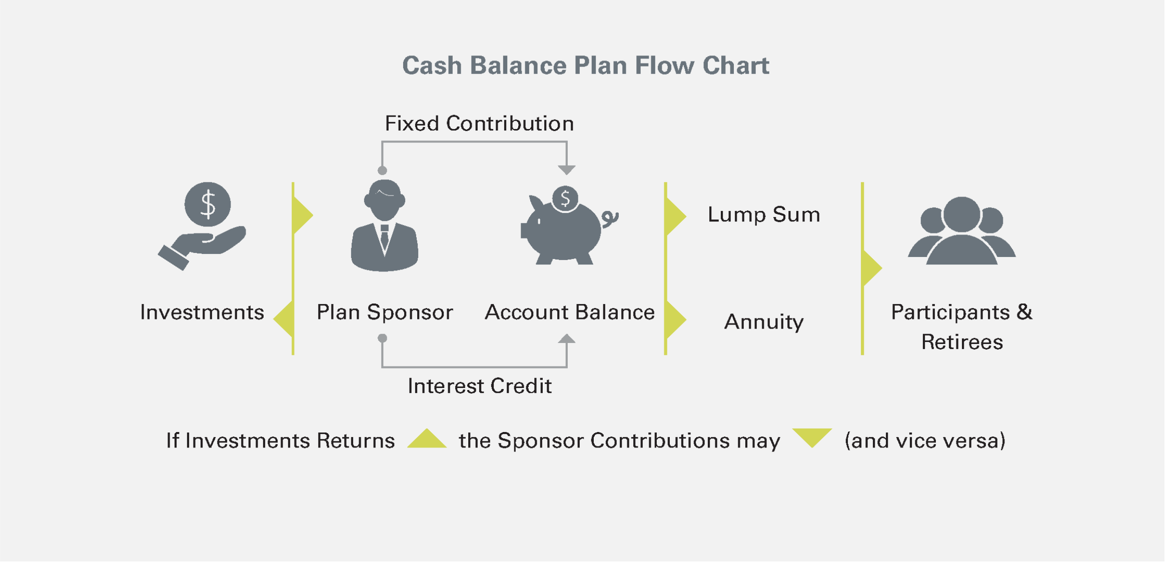
The employer or another designated investment manager makes all investment decisions and generally invests in assets in a manner intended to track the plan's stated interest credit.

Required Contributions:

Employer contributions are required, and the annual amount must not be less than the minimum amount determined by an actuary.

Combo Plans:

A Cash Balance plan can be in addition to a 401(k) or profit-sharing plan to potentially allow for even higher savings.

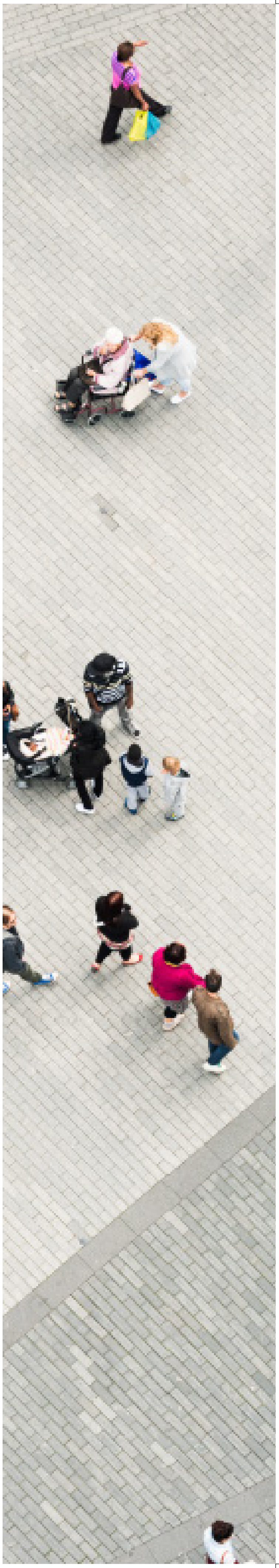


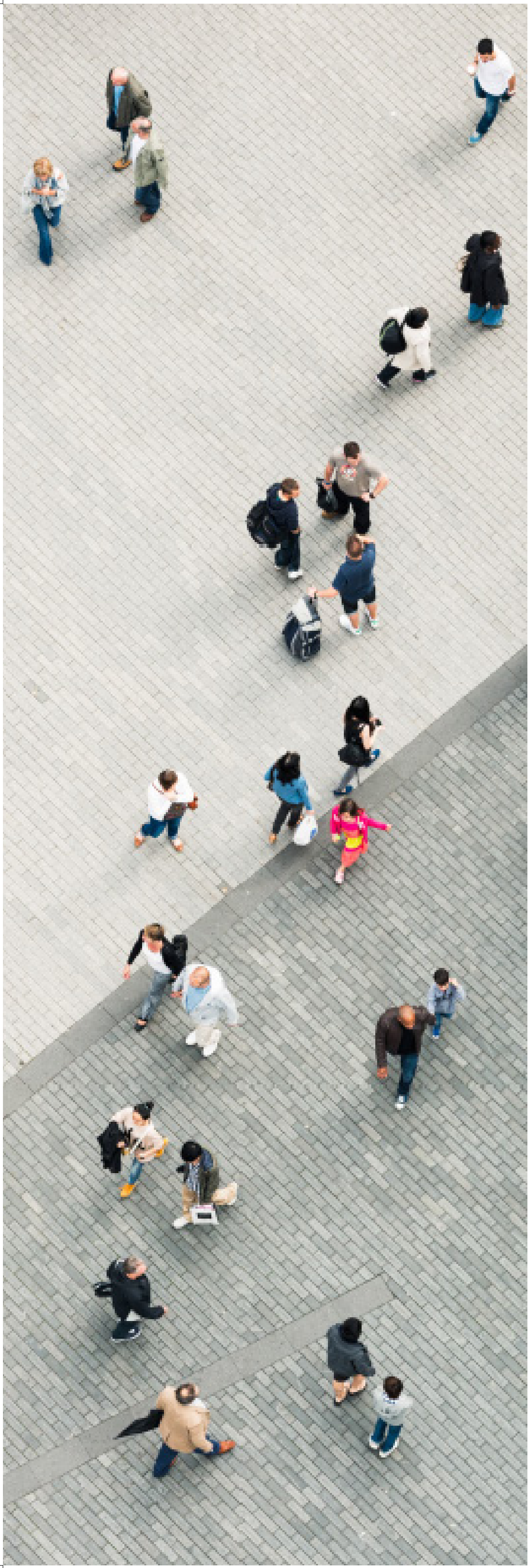
IS A CASH BALANCE PLAN RIGHT FOR YOU?

- Do you currently sponsor a 401(k) or other retirement plan?
- Are you looking to increase tax-deductible contributions beyond what is permitted under Profit Sharing plans such as 401(k)s?
- Does your Firm have consistent cash flow?
- Is your Firm willing to commit to making larger retirement plan contributions for at least 5 years?
- Are you willing to make a contribution up to 7.5% of
- employee compensation to benefit from larger tax deductions?
- If you answered yes to any of these questions, a cash balance plan may be right for you!

TOP TEN CANDIDATES FOR CASH BALANCE PLAN

1. **Highly Profitable Companies of all Types and Sizes**: Usually indicated by the owner's desire for large tax deductions.
2. **Family Businesses:** A Cash Balance can be used as a component of succession planning.
3. **Closely Held Businesses:** Several owners want a greatly enhanced retirement plan.
4. **Law Firms of all Sizes:** Tax deferral and asset protection are often very important to this profession, along with a highly competitive retirement package to help attract and retain top talent.
5. **Medical Groups of all Sizes** Tax deferral and asset protection are often very important to this profession.
6. **Professional Firms of all Types:** CPAs, engineers, architects, financial services firms, dentists, management consultants and others.
7. **Older Owners who have Delayed Saving for Retirement:** For example, they need to squeeze 20 years of saving into 10.
8. **Those who Highly Value Asset Protection:** ERISA generally protects all qualified plan assets from creditors in the event of bankruptcy or lawsuit.
9. **Those who want an Enhanced Benefits Package for Executives:** They want to attract and retain high caliber employees.
10. **Sole Proprietors with Income Exceeding $260,000 Per Year:** All entity-types apply.





CASH BALANCE PLAN CONTRIBUTIONS

The defined benefit pension plan allows for contributions up to $280,000 in 2025. These numbers can be doubled for married couples, who both work in the business. You will also need to contribute for employees, which can provide further tax savings.

Based upon a benefit formula, a cash balance plan illustrates hypothetical contributions and interest credits that are allocated to an account (beginning balance, contribution, interest, ending balance).

Cash balance plans are subject to minimum funding requirements.

Q: Can a plan sponsor stop contributing to a Defined Benefit plan if financial conditions change at the firm?

A: Generally, no. Employers could possibly reduce the amount of contributions by taking steps to freeze benefit accruals by Plan Amendment.

Q: How long does a DB plan need to be in existence before it can be terminated?

A: A condition for establishing any qualified plan is that the employer intends for it to be "permanent." Generally, the IRS is unlikely to challenge a plan's permanency if a qualified plan has been in existence more than 5 years.

PLAN INVESTMENTS

Pooled vs. Individual Accounts

- The investments of cash balance plans are managed by the employer or an investment manager appointed by the employer. The employer bears the risks of the investments. Under 401(k) plans, participants bear the risks and rewards of investment choices.

- Increases and decreases in the value of the plan's investments do not directly affect the benefit amounts promised to participants. However, fluctuation in the value of the investments can increase or decrease the employer's required contribution.

Investment Responsibility

- Typically, your plan's Investment Advisor or a discretionary trustee would assist in the selection of investments.

- Employer contributions to the plan can be held in a trusteed investment account and invested to help achieve the stated interest crediting rate set forth in the plan document.

- Under certain service arrangements, your service provider can assist you with the custody and/or the selection of investments.

CASH BALANCE & 401(K) PROFIT SHARING COMBINATION

Cash Balance plans are typically offered in combination with 401(k) profit sharing plans, resulting in one type of “combo plan.” When offered in tandem, these combo plans are evaluated together for compliance purposes and given the right demographics, the owner and other targeted employees are generally able to receive much larger contributions with minimal increases to the profit-sharing contributions already being paid to staff.

A Potential for More Savings

Exhibit 1:

Highlights potential contributions under a combination 401(k) Profit Sharing and Cash Balance plan.

Demographics			Contributions			
Employee	**Age**	**Salary**	**401(k) Employee Contribution**	**Profit Sharing**	**Cash Balance Credit**	**Combined Total**
Owner	55	$305,000	$27,000	$46,000	$256,990	$333,490
Employee 1	36	$80,000		$5,640	$1,600	$7,240
Employee 2	33	$40,000		$2,820	$800	$3,620
Employee 3	30	$35,000		$2,468	$700	$3,168
Employee 4	27	$30,000		$2,115	$600	$2,715
Employee 5	24	$25,000		$1,763	$500	$2,263
% of Contribution to Owner						**94.61%**

In this example, the owner was able to contribute more than 94% of compensation by making contributions for the employees of approximately 9% of pay. 3% safe harbor NEC is included in the profit sharing contribution. This is a hypothetical example dependent on specific assumption and used for illustrative purposes only.

25-012 (5/25)