Aviance Capital Partners
Investing for Generations

CASH BALANCE PLANS

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How successful business owners can reduce taxes with annual qualified retirement plan contributions of more than $175,000

Business owners and partners are often looking for larger annual tax deductions. A typical deduction comes in the form of retirement plan contributions. Defined Contribution Plans have an upper annual contribution limit of $56,000 ($62,000 with the 401(k) catch-up for those 50 and older). While that maximum is sufficient for some, others are seeking an even larger contribution limits and therefore larger deductions.

Cash Balance Plans are becoming increasingly appealing retirement savings for business owners seeking to contribute up to 5 times that of a 401(k) Profit Sharing Plan. Contributing to a Cash Balance Plan can provide tremendous tax benefits. These benefits apply to both the amount contributed and the subsequent earnings on those contributions.

What is a Cash Balance Plan?

A Cash Balance Plan is a type of retirement plan that belongs to the same general class of plans known as Qualified Plans. These plans qualify for tax deferral and creditor protection under ERISA. First introduced nearly 40 years ago, Cash Balance Plans were seldom used until specific legal issues were clarified in the 2006 Pension Protection Act, 2010 IRS Cash Balance regulations and 2014 Final IRS Cash Balance regulations. This recent legislation has made these plans even more flexible and easier to administer – making them an increasingly popular choice for successful business owners.

2019 Plan Limits

		401k Profit Sharing Plan			
Age	Cash Balance	Salary Deferrals	Profit Sharing	Total	Total Cash Bal and 401k PSP
45	$123,000	$19,000	$37,000	$56,000	$179,000
50	$158,000	$25,000	$37,000	$62,000	$220,000
55	$203,000	$25,000	$37,000	$62,000	$265,000
60	$261,000	$25,000	$37,000	$62,000	$323,000
65	$271,000	$25,000	$37,000	$62,000	$333,000
70	$336,000	$25,000	$37,000	$62,000	$398,000

Note: The chart shows the limits of stand-alone plans and the total if combined. Maximum contribution levels are attained by using both Cash Balance Plans and 401k Profit Sharing Plans.

Cash Balance Plans are employer-sponsored retirement plans that incorporate elements from traditional Defined Benefit Plans along with the flexible characteristics of Defined Contribution Plans (401k). These hybrid plans provide the ability for high income business owners and partners in professional service firms to save upwards of $250,000 annually based upon demographics and plan design.

These accounts are maintained by a plan actuary, who generates annual participant statements. Cash Balance Plans are often combined with 401(k) Profit Sharing Plans to maximize tax-deductible contributions for employers.

Why Choose A Cash Balance Plan?

Tax Benefits

The main reason for choosing a Cash Balance Plan is that the tax benefits are significant. All contributions made to Cash Balance Plans are tax deductible, the company offering the benefit can take an above-the-line tax deduction on contributions. Above-the-line deductions are desirable because they reduce AGI income dollar for dollar. Plan assets remain tax-deferred until distributions are made.

Contributions for employees are also tax deductible. With proper planning, much of the funding can go towards the owner. These percentages will vary depending on the size of the business, payroll, etc. Additionally, contributions to Cash Balance Plans made by employers who maintain corporate entities are free of Social Security and Medicare taxes (7.65% for both the employer and the employee).

Accelerate retirement savings

Cash Balance Plans allow participants to contribute significantly higher amounts than what can be contributed to traditional Defined Contribution Plans. With high contribution limits, plan participants can amass a large amount of savings, sometimes in a short time. This is an especially attractive feature for those who want to quickly boost their retirement savings, allowing them to retire in a manner that more closely mirrors their desired lifestyle.

Flexible plan designs

Cash Balance Plans are customizable. Plans can be designed to be age-based or service-based, to provide larger benefits to older or longer-service employees participating in this plan. Benefit credits are most commonly class-based, which rewards higher benefits to owners/shareholders and partners, with lower amounts to employees. The “benefit credit” gives you maximum freedom to design plans as you please. These plans also can be tailored to fit the specific retirement strategies of various owners within a company, taking factors such as age and income into consideration. Calculations and estimations are made with the assistance of actuaries.

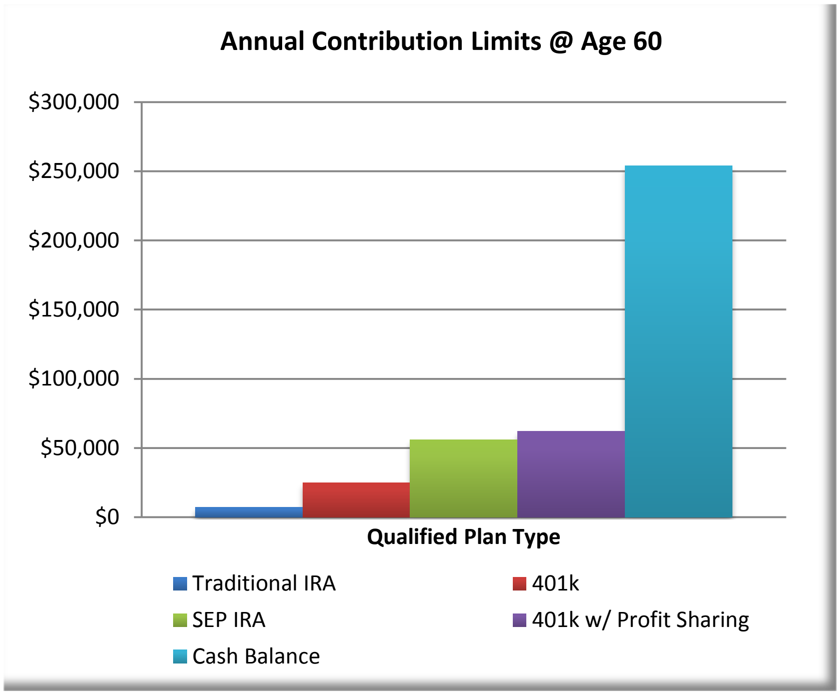
Cash Balance could help participants qualify for the 199A Deduction

For many high-income business owners, a high-contribution qualified retirement plan, such as a Cash Balance Plan, can lower taxable income, and thus qualify the taxpayer for a lower tax rate and potentially become eligible for the new Section 199a 20% deduction on Qualified Business Income.

Other potential advantages

- ERISA Asset protection keeps value safe from lawsuit or bankruptcy
- Innovative approach to attracting and retaining top talent
- Efficient tool for succession planning of family and closely held businesses

Pre-Tax Savings Comparison



Ideal Candidates

Many find Cash Balance Plans an excellent way to maximize contributions to their retirement accounts.

- Partners or owners who desire to contribute more than $50,000 a year to their retirement accounts and are looking to significantly increase their rate of retirement savings.
- Small to mid-sized firms benefit by having a lower owner-to-employee ratio improving cost and tax efficiencies
- Professionals and entrepreneurs that may have neglected their personal retirement savings while building their practice or their company and need to catch up on years of retirement savings.
- Annual income is $275,000+, and business has fewer than 15 employees per owner
- Any company offering Cash Balance Plans should have a history of stable cash flow and profits. Cash Balance Plans require a stable contribution level for three years or more to establish and meet plan "permanency" requirements.
- Medical Professionals and Board Members that have 1099 income

Getting Started

Starting a corporate-wide Cash Balance Plan may sound like a daunting task with endless paperwork and calculations, but it's actually really plain and simple. If you are interested in investigating the feasibility of adopting a new Cash Balance Plan, contact us to analyze your situation and advise you on whether such a plan would be appropriate.

Aviance works with business owners, their CPAs, and designated actuaries to determine the best plan design, and then provides all necessary materials to adopt the plan. To complete the annual administration for the plan's initial year and in all future years, Aviance receives census and plan asset information from the sponsor so annual contributions and benefits can be calculated. If a plan is adopted by the end of the year, then it can be effective retroactively to the beginning of the year. That means lower taxes and increased retirement savings for that year.

Portable and qualifies for Rollovers

Not only do Cash Balance Plans provide employers with more design flexibility, they also offer more flexibility through a portability feature. If an employee leaves a company before retirement age, they don't have to cash out. He or she can just take the accumulated cash balance with them. And that balance can be used to fund another retirement account. This makes Cash Balance Plans highly attractive to younger employees who are more likely to move from one career to another every few years.

Nearly all new Cash Balance Plans utilize this option extensively. Instead of receiving an annuity type of benefit, owners of the companies sponsoring these plans use the plans to lower taxes and accumulate significant tax-deferred retirement savings. Then, once the plan is no longer needed to accrue retirement benefits it can be terminated. Assets for the owner are moved to a 401(k) Profit Sharing Plan or IRA as part of the plan's termination. At this point the assets continue to grow tax deferred in the 401(k) Profit Sharing Plan or IRA until they are distributed directly to the participant or beneficiary.

Considerations: Fees & Commitment

There are many advantages associated with Cash Balance Plans, but individuals must consider the potential disadvantages associated with these plans as well.

The biggest drawback for pension plans is the commitment to minimum funding levels for three to five years. The minimum levels are based on your business profits. If business declines, your commitment will be lowered. But the plan must be constructed as consistent and on-going.

Cash Balance Plans have set up costs and are required to have an actuary review the plan to keep it compliant. Like any other tax-favored or "qualified" retirement plan, a group's new Cash Balance Plan will be subject to certain minimum coverage, participation, and nondiscrimination rules. Typical costs include setup fees, annual administration fees, and investment-management fees. The cost of these types of plans pales in comparison to the potential tax savings and deductions.

Conclusion

Cash Balance Plans represent an opportunity for business owners to take advantage of enhanced tax savings, maximizing their retirement savings and protecting their assets. The landscape of retirement planning has changed. For those high-earning business owners, a Cash Balance Plan may hold the key to securing a comfortable retirement.

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