

# Owner-only Cash Balance Plan

The preferred option when building retirement savings quickly

## Highlights

### Ideal prospects

Independent professionals such as physicians, dentists, realtors, attorneys, engineers, entertainers, computer programmers and analysts, consultants and architects

- No employees other than one owner, or owner and spouse
- Business income relatively stable
- In most cases, owner should be 40 or older and willing to fund the plan for at least 5 years

### Accelerated savings

Accumulations at retirement may exceed \$3,400,000 in as few as 10 years.

### Investment flexibility

Plan investments are directed by the business owner/trustees. Benetech does not restrict plan investments.

### Contribution flexibility

If business conditions change, the plan may be amended to adjust benefit accruals for future years.

### Optional Companion 401(k)

- Adds up to \$51,200 to the program
- Increases contribution flexibility

### Exceptional value

Low installation and annual administration costs

Benetech's Owner-only Cash Balance (CB) plan allows an owner-only business to make deductible company contributions that may exceed \$300,000 a year, depending on the owner's age, compensation and years of participation in the CB plan.

### How the plan works

Annual company contributions to a CB plan may greatly exceed the \$76,500 limit of a SEP or 401(k) because CB contributions are not directly limited by the owner's compensation. Rather, the limit is on the annual benefit starting at retirement that is to be funded. Here's a simplified account of how it works.

A CB plan promises to make annual payments to the owner starting at the plan's normal retirement age (as defined in the plan documents—no earlier than age 62). These annual payments can be as high as 100% of the owner's high consecutive three year average compensation (not to exceed \$275,000 a year).

Currently, the lump sum amount needed to fund this maximum annual benefit after retirement is about \$3.55 million.

The closer the owner is to retirement age, the fewer years he or she has left to accumulate the amount needed to fund the promised benefit. Therefore, the CB contribution must be higher (compared to a younger participant) to stay on track to fund the promised benefit starting at retirement.

### Examples

Compare an Owner-only Cash Balance Plan combined with a 401(k) Profit Sharing Plan to a stand-alone Owner-only 401(k) Plan.

| Age | W-2 Wages | CB* & 401(k) Contributions | vs. | Owner-Only 401(k) | CB+k Advantage |
|-----|-----------|----------------------------|-----|-------------------|----------------|
| 40  | \$200,000 | \$155,500                  |     | \$69,000          | \$86,500       |
| 50  | \$210,000 | \$232,100                  |     | \$76,500          | \$155,600      |
| 60  | \$275,000 | \$353,500                  |     | \$76,500          | \$277,000      |

\* Illustrations are hypothetical. Maximum CB contribution assumes the owner has prior service with the company sponsoring the plan. If maximum deductible contribution is made contributions in future years may be substantially lower. Owners without prior years of service with the company sponsoring the plan may have a lower first-year contribution limit.

Try our Online CB Calculator at [www.benetechinc.com](http://www.benetechinc.com)

To find out if an Owner-only Cash Balance Plan is right for you or your client, use our online calculator or contact your local Benetech specialist, or call our consulting department at (800) 310-6811. With some basic company and employee information, Benetech will generate a contribution illustration at no cost or obligation.

### ? Frequently Asked Questions

#### What is included in Benetech's Contribution Illustration?

The standard illustration shows the maximum contributions to a combined owner-only CB plan and 401(k) for your client in the first year of the program (alternatively, you may request a specific contribution target in the initial request for an analysis). Contributions in subsequent plan years will depend on various factors including actual investment returns, funding deficiencies in prior years, and compensation.

#### What's the maximum allowed contribution?

The maximum contribution for your client will be based on his or her age and compensation. Since this maximum is based on actuarial calculations and limited by IRS regulations, an estimated amount will be determined when the proposal and contribution illustration is prepared.

#### How long must an Owner-only CB plan be maintained?

IRS expects a business to make a long-term commitment to its retirement plan, but has not given clear guidance on what this means. However, it is generally understood that if a CB plan is maintained for at least five years, IRS may not question the business's commitment to the plan.

#### Are there minimum required contributions each year?

Yes. There is a Minimum Required Contribution (MRC) amount that is recalculated each year. The MRC is based on IRS rules for maintaining plan assets at a minimum level given the accrued retirement benefits currently promised by the plan. An amount at least equal to the MRC amount must be deposited by the tax filing date of the plan sponsor including extensions (not to exceed 8 ½ months after the plan year end to avoid excise taxes).

#### Is there any contribution flexibility?

Yes. The plan sponsor can adopt a funding policy that keeps the plan slightly more than 100% funded each year. This additional amount tends to reduce the Minimum Required Contribution in subsequent years, and also serves as a cushion against modest investment losses.

A plan may also be amended so that benefit accruals in future plan years are minimized. This amendment would minimize future year contributions related to an increase in accrued retirement benefits. However all accrued benefits, including benefits already accrued, must continue to be funded, which may result in a "frozen" plan with required contributions in future years.<sup>3</sup>

#### What if my spouse owns 80% (or more) of another company?

In most cases, this would require that your owner-only CB plan (or any qualified plan) cover the spouse's company, primarily due to IRS requirements regarding: (i) how related groups of companies are treated; and (ii) the attribution of company ownership between spouses.

#### I am the only employee of my business. But my business has ownership in a company with employees providing professional services. Is this a concern?

Probably. There are special IRS rules that apply to professional services industries (e.g., medical, legal, accounting, etc.). If your business offers services to clients in conjunction with another company, this may create an Affiliated Service Group of related companies. If this is the case, your plan must also consider and possibly benefit the employees of the affiliated company.

### About Benetech/small-business specialists

Established in 1974, Benetech is one of the nation's largest independent actuarial consulting and plan administration firms. Our focus on customized plan design and administration allows us to work as a team with top advisors to bring high quality services to small and medium-size businesses.

<sup>1</sup> Assumes ten years of participation with a high consecutive three-year average compensation of at least \$275,000.

<sup>2</sup> Assumes catch-up eligible owner defers \$30,500 and a profit sharing contribution does not exceed 6% of compensation (comp not to exceed \$345,000).

<sup>3</sup> Contributions to a "frozen" plan may be required in certain situations, such as if the plan is or becomes underfunded relative to total accrued benefits, including benefits previously accrued under the plan.