

Cash Balance & 401(k) Program

Supercharge a 401(k) Plan by adding a Cash Balance DB Plan

Highlights

Ideal Businesses

Any type of successful small business with a stable income including manufacturing firms, consulting firms, and professional firms such as physicians, dentists, attorneys, engineers, and architects.

Ideal Client Profile

- Age of Owner(s). Owner(s) age 45 or older, with compensation of \$245,000 or more.
- Goal. Annual contributions for targeted owner in excess of \$100,000.
- Stable Business Income. Company can afford to make similar contributions in future years.
- Number of Employees: 50 or fewer for maximum effectiveness.
- Compensation. Owner's compensation higher than most of the other participants.

Three Qualifying Questions

- Is the owner older than most of the other participants?
- Does the owner make more than most of the other participants?
- Is future business income expected to be stable?

Benetech's combination of a Cash Balance DB Plan with a Tiered 401(k) Plan with Safe Harbor 3% NEC is an excellent option for owners of successful small businesses who want to save the maximum for retirement on a tax-deferred basis, while keeping other costs to a minimum.

Plan Benefits

- **Targeted Contributions.** May favor owners with a significantly higher percentage of company contributions.
- **Maximize Benefits For Owners.** Annual contributions for each owner may be as high as \$300,000 or more (depending on age and compensation).
- **Low Employee Costs.** Contributions to other employees may be a fraction of that under a traditional stand-alone DB Plan.
- **Safe Harbor 401(k).** Allows owners to make the maximum salary deferrals on top of company contributions.

Example

Analysis: Company contributions for the owners total \$535,000, while contributions for the other employees total \$42,000 (92% to the owners). When combined with their deferrals the owners set aside a total of \$596,000.

| | Age | Salary | Deferrals | Company Contributions | Total |
|---------------------------------|-----|-----------|-----------|-----------------------|-----------|
| Owner 1 | 50 | \$345,000 | \$30,500 | \$241,000 | \$271,500 |
| Owner 2 | 55 | \$345,000 | \$30,500 | \$294,000 | \$324,500 |
| 10 Employees | - | \$425,000 | - | \$42,000 | |
| Total of Company Contributions: | | | | \$577,000 | |
| Percentage to Owners: | | | | 92.7% | |

Program Background

A "Cash Balance" Plan is a type of Defined Benefit Plan that appears to participants to be similar to a Profit Sharing Plan in many respects. By combining a Cash Balance Plan with a Tiered profit sharing contribution, special discrimination testing can be used to keep employee costs much lower than would be required under a traditional Defined Benefit Plan. In many cases a 7.5% profit sharing contribution and minimum Cash Balance Plan accruals result in the ability to set aside as much as \$300,000 or more for each owner (depending on the age and compensation of the owner).

Request a free contribution illustration

To find out if a Cash Balance & 401(k) Program is right for you or your client, 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.

