

Cash balance plans are a popular retirement plan option, especially with small, high-earning businesses (doctors, attorneys, etc.). When added to a retirement plan strategy with the right design, these plans can maximize tax deductions and savings. See the example below.

Employee	Age	Salary	401(k) Plan			Cash Balance Plan
			Deferral	Safe Harbor	Profit Sharing	
Owner	55	\$305,000	\$27,000	\$0	\$12,300	\$233,000
Owner's Spouse	51	\$28,160	\$27,000	\$0	\$5,500	\$1,000
Employee 1	35	\$35,000	N/A	\$1,050	\$1,750	\$700
Employee 2	40	\$28,000	N/A	\$840	\$1,400	\$560

Total Contributions	\$312,100
Total Contribution for Owner/Family (98% of total)	\$305,800
Tax Savings at assumed 46%	\$143,566
Less: Cost for Contributions to Non-Owners	-\$6,300
Net Annual Tax Savings for Owners/Family	\$137,266

How does the plan reduce my tax liability?

As a business owner your net business income generally flows through to your personal income taxes. Since contributions to the plan are deductible to the business, this directly reduces your net business income and your tax liability.

Is there an obligation to contribute to the plan each year?

Yes. However, the plan can always be frozen to substantially lower the required contribution for future years, or terminated to eliminate future contribution requirements. Also, a plan can usually be frozen in the first half of a year to reduce the current year's contribution requirement.



How are contributions deducted?

Contributions are deductible to the business. The amounts contributed come directly from the business and are not subject to payroll taxes.

Is there a minimum number of years I have to maintain the plan?

When the plan is first established, a permanency requirement applies. However, the plan can be terminated for legitimate business reasons (reduced income, retirement of owner, etc.).

Are employees required to receive benefits and contributions?

In general, yes. These are needed to satisfy various nondiscrimination requirements. However, employers maintaining a profit sharing 401(k) plan **and** a cash balance plan can sometimes make the majority (if not all) of the required employee contributions into the 401(k) plan.

Can I change the contribution amount?

Yes. However, a significant change requires a signed plan amendment. You may want to limit the number of amendments to the cash balance plan to avoid additional scrutiny if audited. If you also maintain a 401(k) plan, you may be able to reduce its contributions prospectively. Therefore, it is important to look at the 401(k) plan/cash balance plan arrangement holistically and plan ahead.



There are multiple owners/partners in my business. How is this handled?

Just like any employer-provided benefit, you may want to allocate the cost of the cash balance plan contribution to each owner/partner. If Partner A is receiving a \$100,000 annual contribution, Partner A's portion of the business's income may be reduced by \$100,000. This can be accomplished through agreements made outside of the plan. Please note that the plan's written benefit formulas are approved by the employer, not by an individual partner.

How do I determine my maximum contribution?

Your contribution must be determined and certified by an enrolled actuary. Your maximum benefit and contribution in a cash balance plan is based on your age and compensation. "Compensation" means W-2 wages for an incorporated business (K-1 distributions do not count). For an unincorporated business (Sole Proprietor or Partnership), compensation is the net earned income from self-employment, reduced by 1/2 self-employment tax and further reduced by the deduction for the plan contribution.

Maximum 1st Year Contribution Credit

Age	Compensation			
	\$305,000	\$200,000	\$150,000	\$100,000
20	\$41,000	\$41,000	\$41,000	\$41,000
25	\$52,000	\$52,000	\$52,000	\$52,000
30	\$67,000	\$67,000	\$67,000	\$67,000
35	\$86,000	\$86,000	\$86,000	\$86,000
40	\$110,000	\$110,000	\$110,000	\$110,000
45	\$142,000	\$142,000	\$142,000	\$142,000
50	\$182,000	\$182,000	\$182,000	\$152,000
55	\$233,000	\$233,000	\$213,000	\$142,000
60	\$299,000	\$262,000	\$196,000	\$131,000
65	\$306,000	\$236,000	\$177,000	\$118,000
70	\$314,000	\$206,000	\$154,000	\$103,000
75	\$264,000	\$173,000	\$130,000	\$86,000

How can EGPS help?

EGPS has a team of enrolled actuaries on staff who specialize in designing cash balance plans. We understand your needs are unique and we will help you tailor your plan to meet your objectives and reach your goals. Since 1971, EGPS has been helping businesses across the country maximize their retirement plan tax deductions and save for the future.