Cash Balance Plans
Breaking the $52k DC Limit


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Many owners of small to mid-sized professional firms, including physicians' practices, have found themselves behind with regards to saving appreciably for retirement. After working long hours over the course of many years, pouring every available dollar back into the business, many owners suddenly realize that retirement is close and that their qualified retirement plans do not allow them to save as much as needed to accumulate sufficient retirement assets.

MOST FIRMS THAT OFFER A QUALIFIED RETIREMENT plan to their employees provide a Defined Contribution (DC) plan, typically a Profit Sharing Plan or a 401(k) Profit Sharing Plan. Regulations limit the amount that can be allocated to a participant of such a plan to $52,000 (as indexed for 2014). To complicate matters further, business owners often find that in order to reach this DC limit for themselves, the cost for rank-and-file employees can be high. Additionally, the business owner may need to save more than $52,000 per year in order to achieve a comfortable retirement. A relatively unknown type of retirement savings plan, a Cash Balance Plan may be an ideal solution.

What is a Cash Balance Plan?

A Cash Balance Plan is a defined benefit (DB) plan that looks very much like a defined contribution (DC) plan to participants (where the plan states a required contribution percentage). Cash Balance Plans may offer employers advantages over traditional DB Plans, including:

- Large deductible contributions that can exceed 100% of pay for older participants
- Design flexibility to offer different benefits to different employee groups
- Increased design flexibility when paired with a 401(k) Plan
- Lump sum or lifetime annuity benefits for all participants
- Ease of understanding for employees and owners

Cash Balance Plans are often called hybrid plans because they share characteristics of both DB and DC plans. Although they are specifically DB plans, they contain similar traits to DC plans because allocations for participants are referred to as a percentage of pay. A Cash Balance Plan works differently than a traditional DB plan, by defining an allocation formula in the plan document, instead of a normal retirement benefit formula. A hypothetical account (the "cash balance" account) is created for each participant, and is maintained on paper for bookkeeping purposes. Also defined in the plan document is an interest crediting rate. Each year, the hypothetical account receives the allocations as defined in the plan document, as well as the guaranteed interest credits.

How Can a Cash Balance Plan Benefit Your Practice?

Through use of a method known as New Comparability, a Cash Balance Plan can help the business owner craft different benefit levels for different employee classes. By permissively aggregating a Cash Balance Plan with a 401(k) Profit Sharing Plan, employers can provide meaningful benefits for employees, while maximizing benefits for the owners and other principals, and generating the largest potential allocations allowed under a qualified plan. Consider the hypothetical example below, based on a practice in the medical industry:

Name	Pay	Existing Integrated Profit Sharing Plan		Alternative Cash Balance & §401(k) Profit Sharing Plans	
		% of Pay	Allocation	% of Pay	Allocation
Owner 1	$260,000	20%	$52,000	68.85%	$179,000
Owner 2	$260,000	20%	$52,000	68.85%	$179,000
Non-Owners	$270,000	16.5%	$44,550	10%	$27,000

As the chart illustrates, under this employer's current Profit Sharing Plan, an allocation of $44,550 is required for non-owners in order for each owner to achieve the $52,000 maximum. Given the expense for non-owners under this type of plan, the owners may simply choose to give a much smaller overall percentage of payroll, thus settling for much less than $52,000 for each of themselves. Under a Cash Balance and 401(k) Profit Sharing Plan combination, the employer can still provide a meaningful 10% of pay allocation to non-owners, while achieving an allocation of over 68% of pay for each owner, and reducing the dollar amount cost of non-owner employee benefits to $27,000.

In addition to potential dramatic increases in annual savings for the owners, the employer can also greatly increase its tax deductible contributions, whilst simultaneously protecting these assets from the claims of the firm's creditors—an advantage of any qualified plan under the Employee Retirement Income Security Act (ERISA).

While Cash Balance Plans broadly appeal to businesses of all sizes and types, they are not ideal for every employer. Before making a decision to adopt one, business owners should consider the following questions:

- Do you want to greatly increase your tax-deductible retirement savings?
- Do you want to control the cost of benefits for employees?
- Are you and your key executives much older on average than your rank and file employees?
- Is your business' income and profitability consistently stable and high?
- Can you make a commitment to increased plan contributions for the foreseeable future?

If the answers to these questions are all "YES", then a Cash Balance Plan may be a way for you to improve your retirement plan offering and break the $52k DC limit.

For more information on how you can help to improve your practice's long-term retirement planning needs, contact James Esposito, QPA, LUTCF, Qualified Plans Consultant, Manning & Napier at info@manning-napier.com and 585-325-6880, ext. 8336.

James Esposito is a Qualified Plans Consultant for Manning & Napier.

In this capacity, he assists employers with the technical design of existing or new qualified retirement plans to better address their goals and objectives. James also provides employers with plan document and governance reviews, to ensure overall compliance with an increasingly complex body of rules and regulations. Prior to joining Manning & Napier in 2011, James spent 12 years as the Marketing Director for Security Administrators, Inc., an actuarial firm in Binghamton, NY. Prior to that, he was an Associate Life Marketing Consultant for CU Life Insurance Company of New York.

James earned his BA in Mathematics and New York State Teacher Provisional Certification from the State University of New York at Buffalo. He is also a Life Underwriter Training Council Fellow (LUTCF) and Qualified Pension Administrator (QPA) through the American Society of Pension Professionals and Actuaries (ASPPA).