

Relieving the Tax Pain...

***THE CASH BALANCE
SOLUTION***

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HOW MUCH CAN BE CONTRIBUTED TO A PLAN ANNUALLY?

(§415)

**Employee
Contributions + Employer
Contributions + Forfeitures = Annual
Limit**

- 2019 Limit - \$56,000 or 100% of compensation¹
- Indexed for inflation in \$1,000 increments

¹ \$62,000 if age 50 or older

\$56,000

NOT ENOUGH?



CASH BALANCE PLANS

*Protecting Your Wealth From
Congress & Creditors*



401(k) & Retirement Plan Administration

Sample Cash Balance Plan / 401(k) Plan

Estimated contributions for the fiscal year ending December 31, 2019

Scenario #1: Professional employer, sole principal, fewer than 25 participants, 401(k) plan employer deduction limited to 6% of plan compensation

HCE	GRP	Employee Name	Age @ EOY	Plan Compensation	Employee Deferrals	Employer Match	Safe Harbor 3%	Profit Sharing	Total DC Contribution	Cash Balance Credit	Total Allocation	Total for Employer	Percent of Total
Y	1	HCE #1	50	\$ 200,000	\$ 25,000	\$ -	\$ 6,000	\$ 3,900	\$ 9,900	\$ 88,000	\$ 122,900	\$ 97,900	89.45%
N	2	NHCE #1	55	\$ 50,000	\$ -	\$ -	\$ 1,500	\$ 2,375	\$ 3,875	\$ 750	\$ 4,625	\$ 4,625	4.22%
N	2	NHCE #2	35	40,000	-	-	1,200	1,900	3,100	750	3,850	3,850	3.52%
N	2	NHCE #3	30	30,000	-	-	900	1,425	2,325	750	3,075	3,075	2.81%

HCE OWNERS	\$	200,000	\$	25,000	\$	-	\$ 6,000	\$	3,900	\$	9,900	\$	88,000	\$	122,900	\$	97,900	89.45%
HCE NON OWNERS		-		-		-		-			-		-		-		-	0.00%
NHCE EMPLOYEES		120,000		-		-	3,600		5,700		9,300		2,250		11,550		11,550	10.55%
TOTAL	\$	320,000	\$	25,000	\$	-	\$ 9,600	\$	9,600	\$	19,200	\$	90,250	\$	134,450	\$	109,450	100.00%

Contribution to Cash Balance Plan	\$ 90,250
Contribution to 401(k) Plan	19,200
Total Tax Deduction (Not Including Deferrals) as Illustrated	\$ 109,450

Total Owner Contributions	=	\$ 122,900
Total Employer Staff Contribution	=	<u>11,500</u>
Deductible Total		\$ 134,400
Potential Tax Savings @39.6%	=	\$ 53,225

Sample Cash Balance Plan / 401(k) Plan

Estimated contributions for the fiscal year ending December 31, 2019

Scenario #2: Professional employer, multiple principals, fewer than 25 participants, combined plan employer deduction limited to 31% of plan compensation

HCE	GRP	Employee Name	Age @ EOY	Plan Compensation	Employee Deferrals	Employer Match	Safe Harbor 3%	Profit Sharing	Total DC Contribution	Cash Balance Credit	Total Allocation	Total for Employer	Percent of Total
Y	1	HCE #1	60	\$ 280,000	\$ 25,000	\$ -	\$ -	\$ 37,000	\$ 37,000	\$ 73,000	\$ 135,000	\$ 110,000	30.76%
Y	1	HCE #2	50	280,000	25,000	-	-	37,000	37,000	73,000	135,000	110,000	30.76%
Y	1	HCE #3	40	280,000	19,000	-	-	37,000	37,000	73,000	129,000	110,000	30.76%
N	2	NHCE #1	50	\$ 75,000	\$ -	\$ -	\$ 2,250	\$ 3,150	\$ 5,400	\$ 750	\$ 6,150	\$ 6,150	1.71%
N	2	NHCE #2	40	50,000	-	-	1,500	2,100	3,600	750	4,350	4,350	1.21%
N	2	NHCE #3	40	45,000	-	-	1,350	1,890	3,240	750	3,990	3,990	1.12%
N	2	NHCE #4	30	45,000	-	-	1,350	1,890	3,240	750	3,990	3,990	1.12%
N	2	NHCE #5	30	40,000	-	-	1,200	1,680	2,880	750	3,630	3,630	1.02%
N	2	NHCE #6	25	30,000	-	-	900	1,260	2,160	600	2,760	2,760	0.77%
N	2	NHCE #7	25	30,000	-	-	900	1,260	2,160	600	2,760	2,760	0.77%

HCE OWNERS	\$ 840,000	\$ 69,000	\$ -	\$ -	\$ 111,000	\$ 111,000	\$ 219,000	\$ 399,000	\$ 330,000	92.28%
HCE NON OWNERS	-	-	-	-	-	-	-	-	-	0.00%
NHCE EMPLOYEES	315,000	-	-	9,450	13,230	22,680	4,950	27,630	27,630	7.72%
TOTAL	\$ 1,155,000	\$ 69,000	\$ -	\$ 9,450	\$ 124,230	\$ 133,680	\$ 223,950	\$ 426,630	\$ 357,630	100.00%

Contribution to Cash Balance Plan	\$ 223,950
Contribution to 401(k) Plan	133,680
Total Tax Deduction (Not Including Deferrals) as Illustrated	\$ 357,630

Total Owners' Contributions	=	\$ 399,000
Total Employer Staff Contribution	=	<u>27,630</u>
Deductible Total		\$ 426,630
Potential Tax Savings @39.6%	=	\$ 168,945

Sample Cash Balance Plan / 401(k) Plan

Estimated contributions for the fiscal year ending December 31, 2019

Scenario #3: Professional employer, multiple principals, fewer than 25 participants, 401(k) plan employer deduction limited to 6% of plan compensation

HCE	GRP	Employee Name	Age @ EOY	Plan Compensation	Employee Deferrals	Employer Match	Safe Harbor 3%	Profit Sharing	Total DC Contribution	Cash Balance Credit	Total Allocation	Total for Employer	Percent of Total
Y	1	HCE #1	60	\$ 280,000	\$ 25,000	\$ -	\$ -	\$ 4,700	\$ 4,700	\$ 234,000	\$ 263,700	\$ 238,700	51.53%
Y	2	HCE #2	50	280,000	25,000	-	-	4,700	4,700	155,000	184,700	159,700	34.48%
Y	3	HCE #3	40	280,000	19,000	-	-	37,000	37,000	-	56,000	37,000	7.99%
N	4	NHCE #1	50	\$ 75,000	\$ -	\$ -	\$ 2,250	\$ 3,188	\$ 5,438	\$ 750	\$ 6,188	\$ 6,188	1.33%
N	4	NHCE #2	40	50,000	-	-	1,500	2,125	3,625	750	4,375	4,375	0.94%
N	4	NHCE #3	40	45,000	-	-	1,350	1,913	3,263	750	4,013	4,013	0.87%
N	4	NHCE #4	30	45,000	-	-	1,350	1,913	3,263	750	4,013	4,013	0.87%
N	4	NHCE #5	30	40,000	-	-	1,200	1,700	2,900	750	3,650	3,650	0.79%
N	4	NHCE #6	25	30,000	-	-	900	1,275	2,175	600	2,775	2,775	0.60%
N	4	NHCE #7	25	30,000	-	-	900	1,275	2,175	600	2,775	2,775	0.60%
HCE OWNERS				\$ 840,000	\$ 69,000	\$ -	\$ -	\$ 46,400	\$ 46,400	\$ 389,000	\$ 504,400	\$ 435,400	94.00%
HCE NON OWNERS				-	-	-	-	-	-	-	-	-	0.00%
NHCE EMPLOYEES				315,000	-	-	9,450	13,389	22,839	4,950	27,789	27,789	6.00%
TOTAL				\$ 1,155,000	\$ 69,000	\$ -	\$ 9,450	\$ 59,789	\$ 69,239	\$ 393,950	\$ 532,189	\$ 463,189	100.00%

HCE OWNERS	\$ 840,000	\$ 69,000	\$ -	\$ -	\$ 46,400	\$ 46,400	\$ 389,000	\$ 504,400	\$ 435,400	94.00%
HCE NON OWNERS	-	-	-	-	-	-	-	-	-	0.00%
NHCE EMPLOYEES	315,000	-	-	9,450	13,389	22,839	4,950	27,789	27,789	6.00%
TOTAL	\$ 1,155,000	\$ 69,000	\$ -	\$ 9,450	\$ 59,789	\$ 69,239	\$ 393,950	\$ 532,189	\$ 463,189	100.00%

Contribution to Cash Balance Plan \$ 393,950

Contribution to 401(k) Plan 69,239

Total Tax Deduction (Not Including Deferrals) as Illustrated \$ 463,189

Total Owners' Contributions	=	\$ 504,400
Total Employer Staff Contribution	=	<u>27,789</u>
Deductible Total		\$ 532,189
Potential Tax Savings @39.6%	=	\$ 210,750

Sample Cash Balance Plan / 401(k) Plan

Estimated contributions for the fiscal year ending December 31, 2019

Scenario #4: Sole principal and spouse, non-principal HCE, cash balance plan covered under ERISA 4021 (subject to PBGC coverage)

HCE	GRP	Employee Name	Age @ EOY	Plan Compensation	Employee Deferrals	Employer Match	Safe Harbor 3%	Profit Sharing	Total DC Contribution	Cash Balance Credit	Total Allocation	Total for Employer	Percent of Total
Y	1	HCE #1	55	\$ 280,000	\$ 25,000	\$ -	\$ -	\$ 37,000	\$ 37,000	\$ 200,000	\$ 262,000	\$ 237,000	72.09%
Y	2	HCE #2	50	50,000	25,000	-	-	5,000	5,000	25,000	55,000	30,000	9.13%
Y	3	HCE #3	45	\$ 125,000	\$ 19,000	\$ -	\$ -	\$ 3,750	3,750	-	22,750	3,750	1.14%
N	4	NHCE #1	58	\$ 65,000	\$ -	\$ -	\$ 1,950	\$ 2,665	\$ 4,615	\$ 1,100	\$ 5,715	\$ 5,715	1.73%
N	4	NHCE #2	55	60,000	-	-	1,800	2,460	4,260	1,100	5,360	5,360	1.63%
N	4	NHCE #3	50	55,000	-	-	1,650	2,255	3,905	1,100	5,005	5,005	1.52%
N	4	NHCE #4	45	55,000	-	-	1,650	2,255	3,905	1,100	5,005	5,005	1.52%
N	4	NHCE #5	40	70,000	-	-	2,100	2,870	4,970	1,100	6,070	6,070	1.85%
N	4	NHCE #6	40	65,000	-	-	1,950	2,665	4,615	1,100	5,715	5,715	1.74%
N	4	NHCE #7	35	55,000	-	-	1,650	2,255	3,905	1,100	5,005	5,005	1.52%
N	4	NHCE #8	35	25,000	-	-	750	1,025	1,775	625	2,400	2,400	0.73%
N	4	NHCE #9	33	45,000	-	-	1,350	1,845	3,195	1,100	4,295	4,295	1.31%
N	4	NHCE #10	30	40,000	-	-	1,200	1,640	2,840	1,000	3,840	3,840	1.17%
N	4	NHCE #11	30	25,000	-	-	750	1,025	1,775	625	2,400	2,400	0.73%
N	4	NHCE #12	25	45,000	-	-	1,350	1,845	3,195	1,100	4,295	4,295	1.31%
N	4	NHCE #13	25	30,000	-	-	900	1,230	2,130	750	2,880	2,880	0.88%

HCE OWNERS	\$ 330,000	\$ 50,000	\$ -	\$ -	\$ 42,000	\$ 42,000	\$ 225,000	\$ 317,000	\$ 267,000	81.22%
HCE NON OWNERS	125,000	19,000	-	-	3,750	3,750	-	22,750	3,750	1.14%
NHCE EMPLOYEES	635,000	-	-	19,050	26,035	45,085	12,900	57,985	57,985	17.64%
TOTAL	\$ 1,090,000	\$ 69,000	\$ -	\$ 19,050	\$ 71,785	\$ 90,835	\$ 237,900	\$ 397,735	\$ 328,735	100.00%

Contribution to Cash Balance Plan \$ 237,900

Contribution to 401(k) Plan 90,835

Total Tax Deduction (Not Including Deferrals) as Illustrated \$ 328,735

Total Owners' Contributions	=	\$ 317,000
Total Employer Staff Contribution	=	<u>80,735</u>
Deductible Total		\$ 397,735
Potential Tax Savings @39.6%	=	\$ 157,503

CASH BALANCE PENSION PLANS

➤ **What is a Cash Balance Pension Plan?**

- A type of defined benefit pension that operates in ways similar to a profit sharing plan:
 - Clearly shows the amount of contribution being credited to each participant.
 - Clearly shows the value of each participant's account.

➤ **How does a Cash Balance Plan work?**

- Each participant has an individual account similar to a 401(k). The account grows 2 ways:
 - 1) Company contribution is determined by a formula specified in the plan document.
 - Percentage can be a percentage of pay OR a flat dollar amount.
 - 2) Account grows with an annual interest credit.
 - The Rate of Return is guaranteed & is not dependent on the investment performance.
 - The ROR could change each year or could be fixed. (e.g. linked to the 10 year Treasury, variable, or fixed at 5%, 5.5%....)
- At termination, the participant is eligible to receive vested portion of account balance.
- A participant's vested percentage is determined by the plan's vesting schedule.

CASH BALANCE PENSION PLANS

➤ **Plan investment and contributions**

- Individual participants are not able to direct the investments in their account.
- Plan assets are pooled and invested by the trustee or investment manager.
- Accounts will be credited at a guaranteed rate of return regardless of actual returns.
- If investment earnings exceed **annual interest credit**, excess is used to reduce ER contribution.
 - This circumstance does not affect the amount credited to participant's account.
- Accounts will increase according to Plan's schedule and is partly funded by:
 - Reduced employer contributions
 - Excess in investment earnings

➤ **Can a Cash Balance Plan be offered in addition to 401(k), Profit Sharing or other plans?**

- Yes, an employer can offer retirement plans in combination to produce a desired effect.

CASH BALANCE PENSION PLANS

➤ **Distribution options**

- Vested accounts in a Cash Balance Plan can be paid at retirement or termination as follows:
 - Lump-sum distribution, OR
 - Rolled to an IRA
- An annuity form could also be elected where participant receives a set monthly pension.

➤ **Can Cash Balance contributions change? Increase or decrease?**

- Yes, but with restrictions:
 - Contributions cannot vary from year-to-year depending on profitability.
 - At establishment employer commits to funding the plan benefit for the foreseeable future.
- Plan can be amended periodically to permit different contribution levels, with restrictions:
 - Any reductions must be made BEFORE an employee works 1,000 hours in a plan year.
 - The plan can also be frozen or terminated.

CASH BALANCE PENSION PLANS

- **Must everyone participate equally in the Cash Balance Plan?**
 - No. Within government limits employers can designate different contribution amounts.

- **Tax deductions and allocation of plan contributions for partnerships**
 - Tax deductions for contributions made on behalf of non-partner employees are taken on the partnership tax return.
 - Tax deductions for contributions made on behalf of partners flow through the partnership return to their personal return.
 - **Note:** To be sure that the amount deducted for tax purposes by a partner as shown on Schedule K-1 is the same as the amount contributed on behalf of the partner, the partnership's agreement must permit this method of allocation.

- **Is the plan subject to IRS discrimination testing?**
 - Yes. Like any other qualified plan, it is subject to discrimination testing.
 - The exact percentage required for staff (NHCEs) employees depends on the results of discrimination testing.

CASH BALANCE PENSION PLANS

➤ **Advantages of Cash Balance Pension Plans**

- Much higher contribution amounts for pre-tax dollars are permitted.
- Acceleration of retirement savings.
- Combines well with 401(k) and/or Profit Sharing for contribution flexibility & higher amounts.
- Portable in the event of job change or termination.
- Assets are protected from creditors in the event of bankruptcy.
- More flexible than traditional Defined Benefit plans.
- Many distribution options upon retirement: lump-sum payout or IRA rollover.

➤ **Timing**

- Plans must be “executed” by the last day of the year to be effective for that particular year.
- Plans do not have to be “funded” for 8-1/2 months following the end of a plan year.
(e.g., 09/15/19 for a 12/31/18 year end)

CASH BALANCE PENSION PLANS

- **How do design and administrative costs differ with 401(k) profit sharing plans?**
 - Calculations must be certified annually by an actuary.
 - Expenses will vary by size of plan and annual testing requirements.

- **What makes a good candidate for a Cash Balance Plan?**
 - Good candidates have one or all of the following characteristics:
 - Owners or partners who desire to contribute significantly more than \$55,000 per year.
 - Companies that have demonstrated consistent profit patterns.
 - Companies already contributing 3-4% or more to employees, or are willing to do so.
 - Owners or partners over age 40 who desire to “catch-up” on pension savings.

**RETIREMENT
PLAN
ADMINISTRATION**

**ADMINISTRATIVE
TRUSTEE
SERVICES**

**ESTATE
PLANNING**

