Cash Balance Plans

Cash Balance Plans are a type of tax – qualified Defined Benefit Pension Plan.

Highlights:

Tax Benefits Now - Contributions to the Plan are tax deductible and investment return is tax deferred. Significantly reduce your current Income Tax.

Tax Benefits Later - Can be designed with Cash Value Life Insurance providing a tax free death benefit and tax free retirement income.

Increased and Accelerated Retirement Savings - Cash Balance Plans permit larger annual tax deductible contributions and benefits than is possible with a 401(k) Profit Sharing Plan.

Niche Retirement Plan - Great retirement plan fit and solution for physician groups, dental groups, small business owners, self-employed individuals and other professional practices.

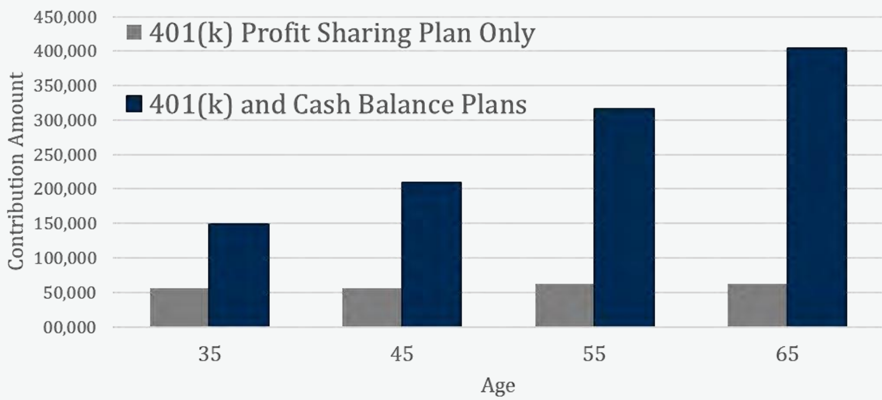
Creditor Protection – The Plan assets in a Cash Balance Plan can be ERISA Creditor protected.

A Smarter Defined Benefit Plan…

Easy to Understand
Age Neutral for staff
Increased Flexibility
Consistent Benefit Growth

Compliment to Existing or New 401(K) Plan

Sample Maximum Annual Contribution Limits



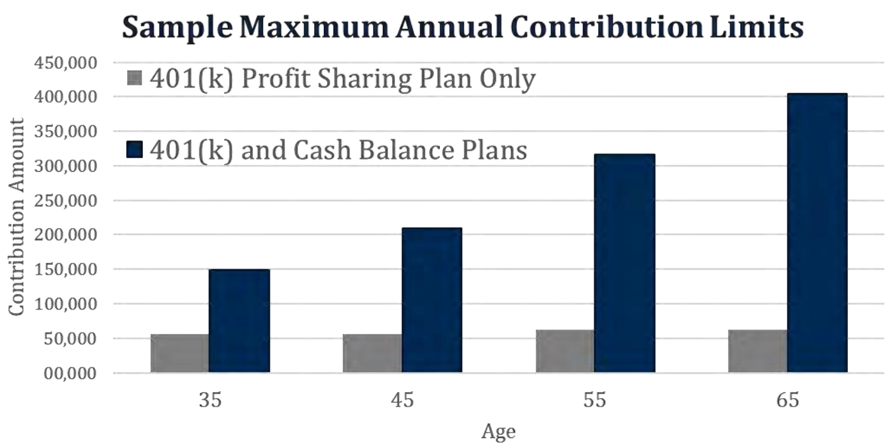
About Cash Balance Plans

Cash Balance Plans are a type of tax – qualified Defined Benefit Pension Plan.

They have increased in popularity in recent years for a number of reasons

Tax Benefits – Contributions to the Plan are tax deductible and investment return is tax deferred.

Higher Contribution Limits - Cash Balance Plans permit larger annual tax deductible contributions and benefits than is possible with a 401(k) Profit Sharing Plan.



Flexible Design - Cash Balance Plans can easily be designed to provide age neutral benefits to all employees or targeted allocations to specific individuals.

Easy to understand - Cash Balance Plans are easier for plan sponsors and participants to understand than traditional Defined Benefit Pension Plans.

Work with existing or new 401(k) Plan - Cash Balance Plans do not require substantial changes to existing 401(k) Profit Sharing Plans and work well in tandem with 401(k) Profit Sharing Plans.

Cash Balance Plan Features

1. ***Niche Retirement Plan*** – Cash Balance Plans are a great retirement plan fit and solution for physician groups, dental groups, and other professional practices. They also work well for other small business owners or self-employed individuals.

2. ***Tax Deductible Contributions*** – A Cash Balance Plan is a tax qualified retirement plan like 401(k) Plans. That means that the contributions made to a Cash Balance Plans are tax deductible and the investment earnings are tax deferred. Cash Balance Plan assets are not subject to income tax until withdrawn from the Cash Balance Plan or a rollover IRA.

3. ***Higher Contribution Limits*** – A Cash Balance Plan provides for much higher tax deductible contributions than a 401(k) Profit Sharing Plan alone can provide. The maximum contribution amount is dependent upon an individual's age and generally increases the older the individual, but at all ages the total maximum contribution available is always higher with a Cash Balance Plan than with a 401(k) Plan alone.

4. ***Creditor Protection*** – The Plan assets in a Cash Balance Plan are ERISA creditor protected.

5. ***Flexible Design*** – A Cash Balance Plan can easily provide for different levels of benefit and contributions for individual owners, physicians, partners, and other key individuals

6. ***Supplement to 401(k) Plan*** – A Cash Balance Plan can be maintained along with and as a companion to a 401(k) Profit Sharing Plan

7. ***Benefit defined in Plan Document***

    A. Plan document provides for annual allocation and interest credit

    B. Interest crediting rate is usually a fixed rate between 3% and 5%. Some Cash Balance Plans can now utilize a return based or market based index. However, a low fixed interesting crediting rate is often preferred due to concerns with reducing the maximum lump sum benefit limit and employee contribution cost increases based upon the use of market based interest crediting rates.

    C. Total value of plan assets is usually different than total value of Cash Balance benefits

Cash Balance Plan Features

8. ***A Smarter Defined Benefit Plan***… – Cash Balance Plans are a type of a Defined Benefit Pension Plan, but are an improved version of Defined Benefit Plans and are preferable to traditional Defined Benefit Pension Plans because:

   Communication – The benefits are communicated as an account balance that equates to what a participant could receive in a lump sum if eligible for distribution. This is much easier for all to understand than traditional Defined Benefit Plan benefits.

   Age Neutral for staff - It is possible and common for a Cash Balance Plan to provide for the same contribution rate amongst staff. This was not possible with older traditional Defined Benefit Pension Plans and often resulted in unfavorable contribution cost amounts for certain employees.

   Increased Flexibility – Cash Balance Plans are inherently more flexible than traditional Defined Benefit Plans when it comes to allocation and contribution amounts and ranges.

   Consistent Benefit Growth – The benefits provided by Cash Balance Plans grow at a plan defined interest rates and are not subject to volatile changes in the value of the benefits based upon changes in interest rate environments like traditional Defined Benefit Plans.

9. …***But still a Defined Benefit Pension Plan***

   Subject to Annual Actuarial Valuation and Certification by Enrolled Actuary.

   Subject to minimum funding requirements. This does not mean that contributions are necessarily required each year, but Cash Balance Plans do not have the absolute contribution flexibility inherent in Profit Sharing Plans.

   Range of available contributions each year from minimum funding to maximum deductible

10. ***Pooled (Trustee Directed) Investment Account*** - Since a Cash Balance Plan is a type of a Defined Benefit Pension Plan and since the benefit amount provided to a non-owner participant is defined in the plan, it only makes sense for the Cash Balance Plan to utilize trustee directed instead of individually directed investment platform.

Cash Balance Plan Features

10. Can provide for additional insured death benefits -

A. In addition to normal retirement benefit

B. Death benefit funded by deductible contributions

C. Can ultimately provide for additional retirement income, tax free and potential estate tax free insurance proceeds

11. Contribution Flexibility provided by

A. An annual range of available contributions from minimum required to maximum deductible

B. Can amend plan up until 2.5 months after year end to increase benefits and funding range

C. Can freeze plan or amend to lower allocation before 1000-hour point in year (i.e. can lower contribution requirement on a prospective basis only).

D. Note, a plan sponsor is never required to fully fund a Cash Balance Plan. Upon Plan Termination, the non-owner participants must receive the full value of their benefits. However, an owner of the plan sponsor can receive a lower distribution amount based upon remaining plan asset amounts in lieu of full funding their benefit amount.

Including Life Insurance in a Cash Balance Plan

- Provides for a method of obtaining Permanent Life Insurance coverage through tax-deductible contributions to the Cash Balance plan.

- An ancillary benefit available in addition to the normal retirement benefit.

- Provides for a **higher tax-deductible** contribution limit over the life of the plan since the plan is funding both a retirement benefit and an ancillary death benefit.

- Provides for completion of family retirement planning in event of pre-mature death.

- Assuming survivorship until retirement, the insurance policy can provide for additional tax free retirement income or can be used as an estate tax planning tool (assumes ultimate removal from the Cash Balance Plan).

- All of the contributions are deductible to the plan sponsor. While covered by current life insurance protection, the current cost of the pure life insurance protection (using IRS Table 2001 rates) is reported as taxable income to the participant. This reportable economic benefit is generally small as compared to the total contribution / deduction amount. For example, for an individual age 45 with a Death Benefit of $1,750,000 and an annual premium of $81,183, the first year reportable economic benefit is approximately $950.

- Provides for **tax-free** insurance proceeds to beneficiary in case of death. The Plan is the owner of the policy. The Plan provides for an insured death benefit in additional to the normal Cash Balance retirement benefits. If death occurs while the policy is inside of the Cash Balance Plan, the death benefit is paid from the insurer to the Cash Balance Plan. The Cash Balance Plan then pays an amount equal to the death benefit less the cash value of the policy to the beneficiary income tax free. The cash value of the policy plus additional assets from the plan brokerage account up to the Cash Balance Plan retirement benefit could be rolled over to an IRA for the beneficiary.

- At or before retirement, the Plan can permit the participant to purchase the policy from the Plan for it's fair market value or at retirement or termination of employment the plan could distribute the policy to the participant. Once outside of the Cash Balance Plan, the insured can access the policy's cash value via tax-free loans or withdrawals to supplement retirement income. The policy could similarly be purchased by a life Insurance Trust (ILIT) to help with estate tax planning and generational transfer purposes.

- Must provide insurance to some rank and file participants to satisfy benefits, rights and features IRS requirements. If employee is uninsurable or rated, level of insurance can be equivalent to that purchasable by premium for a standard class.

- Policies inside of a Cash Balance Plan are generally scheduled for 4 to 10 annual premiums.

401(k) Plan Features

- Offering retirement plans can help the company in efforts to attract new employees and reduce turnover.
- Employees have the ability to make 401(k) (pre-tax) or Roth (after-tax) contributions withheld from their paycheck.
- The annual 401(k) contribution maximum deferral rate is published by IRS. For 2020, the participant can contribute a total of $19,500 out of compensation.
  Participants age 50+ can contribute an additional $6,500.
- The employer has the ability to make additional matching and profit sharing contributions to the participants accounts. These contributions are tax deductible for the employer.
- The annual contribution maximum takes into account the employee and employer contributions. For 2020, the participant can receive a total of $57,000.
- Participants may have the ability to direct the investment of their assets in mutual funds or other qualified

Difference between Traditional and Roth contributions:

Traditional (pre-tax):

- Contributions are made with pre-tax dollars.
- Withdrawals (contributions and earnings) are taxed.
- 10% early withdrawal penalty applies to entire balance.

Roth (after-tax):

- Contribution are made with after-tax dollars.
- Withdrawals (contributions and earnings) are tax-free.
- 10% early withdrawal penalty applies only to earnings (after 5 years).