CASH BALANCE (CB) PENSION PLANS – THE PERFECT RETIREMENT SOLUTION

- **WHAT ARE CB PLANS?** These hybrid pension plans may be the perfect retirement solution for business owners, partners, and professionals who are looking for larger current tax deductions than possible under defined contribution plans and for accelerated retirement savings. Under current IRS limits these plans can have $2.9 million maximum accumulations as early as age 62 with at least 10 years of participation.

- **HOW DOES A CB PLAN WORK?** Under a CB plan participants have accounts to which specified employer contribution credits are added annually. These CB plan accounts may now be adjusted by the plan's actual annual rate of investment return so long as plan investments are adequately diversified. CB plan accounts must be fully (100%) vested after 3 years of service. Upon termination of employment or retirement or beginning at age 62 while still employed, the vested account balance is the lump sum amount payable.

- **WHY ARE CB PLANS BECOMING SO POPULAR?**

- They help business owners, partners, and professionals accumulate substantial pre-tax retirement savings over relatively short time periods.

- They are similar in nature and operation to 401(k) plans and other defined contribution (DC) plans.

- They may now adjust participants' accounts by the plans' actual annual rates of investment return which means that the value of all account balances will always be the same as the value of plan assets.

- **They transfer plan investment risks and rewards from plan sponsors to plan participants thereby eliminating unfunded liabilities (the single most troublesome characteristic of regular defined benefit (DB) plans).**

- They have more stable and predictable annual employer contributions.

- **ARE THERE LIMITS ON AN ACCOUNT BALANCE UNDER A CB PLAN?** Yes. A CB plan account balance cannot exceed the maximum lump sum accumulation permitted by law and upon distribution, the CB plan vested account balance cannot be less than the total vested employer contribution credits added to the account.

- **MUST EVERYONE PARTICIPATE EQUALLY IN A CB PLAN?** No. Subject to tax law requirements, certain employees can be excluded. The employer may specify a different annual employer contribution credit (either a dollar amount or a percentage of pay) for each participant, subject to IRS rules for maximum and minimum contributions and to nondiscrimination rules for benefits and contributions. **Pre-tax employer contributions of $100,000 to $200,000 per year for business owners, partners, and professionals are common depending on their ages.**

- **CAN CB PLAN CONTRIBUTIONS CHANGE AUTOMATICALLY FROM YEAR TO YEAR?** No. CB plans are not profit sharing plans with discretionary annual employer contributions. CB plans must be amended to change annual employer contribution levels with limited amendment frequency unless valid business economic reasons exist.

SHAW & COMPANY
7700 N. Kendall Drive, Suite 710, Miami, Florida 33156
Phone: (305) 595-2740 Fax: (305) 595-8227 www.netretire.com

- **CAN CB PLANS BE TERMINATED?** Yes. Vesting accelerates to 100% automatically upon plan termination. However, subject to valid business reasons acceptable to the IRS, the IRS specifies that all retirement plans including CB plans must remain in force for at least 10 years.

- **ARE CB PLAN DISTRIBUTIONS PORTABLE AND FLEXIBLE?** Yes. Upon termination of employment or retirement or beginning at age 62 while still employed, the vested account balance can be taken as a taxable distribution, or rolled over to an IRA or another retirement plan, or converted to lifetime annuity payments.

- **ARE CB PLAN CONTRIBUTIONS TAX-DEDUCTIBLE BUSINESS EXPENSES?** Yes. CB plans have tax-favored status and contributions have the same effect as deductions which reduce ordinary income dollar for dollar. With combined Federal and State taxes as high as 45%, the tax savings from the contributions and the subsequent investment earnings on the contributions are very substantial.

- **ARE CB PLAN ASSETS PROTECTED FROM CREDITORS?** Yes. The anti-alienation provisions of ERISA specify that plan assets may not be assigned or garnished in the event of bankruptcy or other legal claims. This asset protection often appeals to business owners, partners, and professionals.

- **CAN CB PLANS BE OFFERED IN ADDITION TO 401(k) PLANS AND OTHER PLANS?** Yes. An employer can offer a combination of qualified retirement plans in order to have larger contribution amounts. Just as a profit sharing contribution feature can be added to a 401(k) plan, an employer may add a separate CB plan as well. In fact, a 401(k) profit sharing plan in combination with a CB plan can be the ideal plan design for many companies and partnerships.

- **HOW DO CB PLAN DESIGN AND ADMINISTRATIVE COSTS COMPARE WITH THOSE OF OTHER PLANS?** It is more expensive to set up and administer a CB plan than a 401(k) profit sharing plan because the plan's funding must be certified by an actuary each year. However, the tax benefits of a CB plan will often significantly exceed these additional costs (which are also tax-deductible business costs). Expenses will vary by plan size and annual nondiscrimination testing requirements.

- **DOES THE IRS APPROVE CB PLANS?** Yes. The IRS reviews and approves CB plans including those which work in tandem or combination with 401(k) profit sharing plans.

With our actuarial credentials and more than 40 years of experience, we have designed appropriate retirement plans to fit the pre-tax savings and retirement objectives of business owners, partners, and professionals. There are always practical and legal considerations, but our plan designs have a perfect (100%) IRS approval rate. We do not sell investments and we have extensive references. We know that successful retirement plans need a team of qualified professionals beyond our actuarial skills including ERISA tax attorneys, CPAs, and investment advisors. CONTACT US FOR MORE DETAILS ABOUT CB PLANS AND ABOUT OUR SERVICES.

SHAW & COMPANY
7700 N. Kendall Drive, Suite 710, Miami, Florida 33156
Phone: (305) 595-2740 Fax: (305) 595-8227 www.netretire.com

EXAMPLES OF CASH BALANCE PLAN CONTRIBUTIONS AND TAX SAVINGS

Current Age	Retirement Age	Maximum First Year Contribution	First Year Tax Deferred Savings*	Maximum Accumulation At Ret. Age
37	62	$ 87,000	$ 39,000	$ 2,888,000
42	62	$ 112,000	$ 50,000	$ 2,888,000
47	62	$ 144,000	$ 65,000	$ 2,888,000
52	62	$ 184,000	$ 83,000	$ 2,888,000
57	62	$ 237,000	$ 107,000	$ 1,444,000
62	67	$ 285,000	$ 128,000	$ 1,499,000

* Assumes that the aggregate marginal annual tax rate is 45%.

SHAW & COMPANY
7700 N. Kendall Drive, Suite 710, Miami, Florida 33156
Phone: (305) 595-2740 Fax: (305) 595-8227 www.netretire.com