

CASH BALANCE PLAN

PROVIDES ONE OF THE HIGHEST CONTRIBUTIONS AND TAX DEDUCTIONS

Given recent economic events, many business owners have seen their nest eggs shrink, and with recent and potential new tax laws taking effect soon, they may be required to pay more in taxes. Defined Contribution (DC) 401(k) Plans limit the amount a business owner or highly compensated employee can defer, and the amount employers can contribute. As business owners near retirement, there is growing concern that sufficient retirement savings are unattainable.

The contributions for Cash Balance Plans (CBP) are calculated based on the employees' ages, compensation, and employee classes. The employer decides the contribution percentage for each employee. Since this type of plan heavily favors the owners or key employees, it is almost always set up in combination with a 401(k) Plan so that together, they satisfy nondiscrimination requirements. CBPs work especially well where owners and employees are more advanced in age. They work best for a business with at least eight employees. The following is only one example of how a Cash Balance & 401(k) Plan combination can benefit your company.

Name	Age	Compensation	401(k)	Employer Safe Harbor	Employer Profit Sharing	Employer Cash Balance	TOTAL	SH, PS, CB as % of Participant's Pay
Owner 1	51	275,000	24,500		8,250	135,000	167,750	61.00
Owner 2	48	275,000	18,000		8,250	120,000	146,250	53.18
Staff 1	25	25,000	0	750	750	500	2,000	8.00
Staff 2	35	40,000	0	1200	1200	800	3,200	8.00
Staff 3	26	27,000	1200	810	810	540	3,360	12.44
TOTAL							\$314,000	

SUMMARY OF CONTRIBUTIONS

	Employer Safe Harbor	Employer Profit Sharing	Employer Cash Balance	TOTAL	
Employer Contributions to Owner	0	16,500	255,000	271,500	
Employer Contributions to Staff	2,760	2,760	1,840	7,360	
% of Employer Contributions to Owner				97.36%	

TAX SAVINGS

Total Owner Contribution	314,000	Staff Contribution	7,360
Estimated Owner Tax Rate	37%	Savings After Staff Contribution	108,820
Estimated Tax Savings	116,180		

Additional assumptions used in above calculations: Total Owner combined Federal & State Income Tax Rate assumed at 45%. You should consult your tax advisor as to the actual tax rates and your actual amount saved. Contributions may vary in the future based on actual investment performance, plan provisions, and changes in tax regulations. The numbers of participants included in the illustrations were limited for simplicity and comparability. However, all of the plans are able to serve from one to hundreds of participants.

THE DETAILS

A CBP is a hybrid plan that, while being a Defined Benefit Plan (DBP), looks like a Defined Contribution Plan (DCP) to the employees. In a CBP, a hypothetical account balance is created for each participant. Contribution allocations and interest credits are provided to each hypothetical account (regardless of the plan's actual investment experience). As a DBP, the employer assumes the risk of investment gain or loss. There are also minimal funding requirements.

TO FIND OUT MORE ABOUT CASH BALANCE PLANS AND HOW THEY CAN HELP YOUR FUTURE, CONTACT US TO DISCUSS YOUR OPTIONS.



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