

Cash Balance Plans for Larger Firms

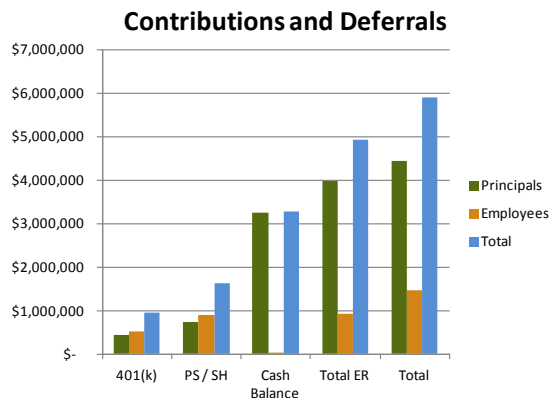
Cash balance plans can be great solutions for small firms trying to save on their income tax bill and boost retirement savings. However, if certain criteria are met, cash balance plans can also be effective for larger firms. In order for a cash balance plan to make sense, regardless the size of the firm, it is important to have a low ratio of non-owners to owners.

Case Study: A Cash Balance Plan for a Large Medical Group

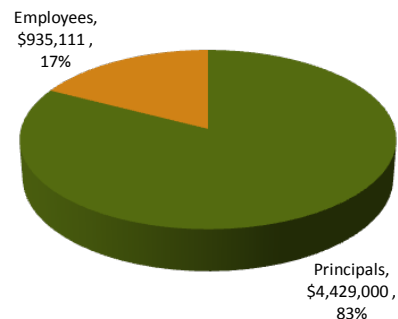
Big Medical, a large medical group with 21 partners and 257 non-owner employees, wanted a way to increase their tax-advantaged retirement plan contributions. The partners felt restricted by the limits in their 401(k)/profit sharing plan and wanted to significantly increase their pre-tax retirement contributions. Additionally, the firm consistently posted strong profits, resulting in large income tax bills each year. Due to Big Medical's fairly low non-owner to owner ratio of 12 to 1, we proposed layering a cash balance plan on top of their existing 401(k)/profit sharing plan to address both pain points.

Here is what the combination plan design looked like:

	Plan Compensation	401(k)	Profit Sharing	Safe Harbor Non-elective	Cash Balance Pay Credits	Total Employer	Total
Total to Principals	5,565,000	444,000	568,050	166,950	3,250,000	3,985,000	4,429,000
Total to Employees	11,382,561	525,019	566,257	341,477	27,378	935,111	1,460,130
Totals	\$ 16,947,561	\$ 969,019	\$ 1,134,307	\$ 508,427	\$ 3,277,378	\$ 4,920,111	\$ 5,889,130



Allocation to Principals vs. Cost of Employee Contribution



This plan design is for illustration purposes only. Staff demographics can have a significant impact on plan design results.

Based on Big Medical's demographics, we found that we could allocate substantial cash balance credits to the principals, with a relatively small increase in overall contributions to the employees. Between the cash balance plan and the 401(k)/profit sharing plan, the 21 principals received over \$4.4M, or 83% of all employer money. In addition, Big Medical was able to take a tax deduction for all employer contributions to both plans, resulting in a tax deduction equal to \$4,920,111.

Cash balance plans are very versatile and can help firms of all sizes turn tax dollars into retirement savings. Please consult with us to determine if a cash balance plan is right for your firm.

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