THE PENSION DESIGN GROUP

Cash Balance Pension Plans - Top Features

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

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 Cash Balance Plan assets are not subject to income tax until withdrawn from the Plan or from a rollover IRA.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

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 owners, physicians, partners, and other key individuals. If a plan sponsor wants to contribute a higher amount for one partner than another, that is easy to accommodate in a Cash Balance Plan.

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. Indeed, a Cash Balance Plan paired with a 401(k) Profit Sharing Plan often provides a much more favorable contribution cost design than a Cash Balance Plan by itself.

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 now utilize a return based or market based index. However, a low fixed interest crediting rate is much 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.

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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:
   a. *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.
   b. *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.
   c. *Increased Flexibility* – Cash Balance Plans are inherently more flexible than traditional Defined Benefit Plans when it comes to allocation and contribution amounts and ranges.
   d. *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***
   a. Subject to Annual Actuarial Valuation and Certification by Enrolled Actuary.
   b. 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.
   c. 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 document and is not dependent upon the plan asset return, it only makes sense for the Cash Balance Plan to utilize trustee directed instead of individually directed investment platform.

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 1,000 hour have been met in year (i.e. can lower contribution requirement on a prospective basis only).
   d. 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.