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Cash Balance Plan - Questions and Answers

What is a Cash Balance Plan?

A Cash Balance Plan is a retirement plan that allows the owners of practices to save as much as $200,000 per year, tax deferred, based on the demographics of their group. These plans are generally well suited for practices with steady cash flow and Dentists/owners that are generally older than the employee population.

What are the benefits of a Cash Balance Plan?

1. **Higher contribution limits** – funding limits for Cash Balance plans are potentially much higher than for a 401(k) Profit Sharing plan and can be layered on top of the existing 401(k) Profit Sharing plan if one is already in place. Depending upon age and income level, the additional annual benefit for an owner could be as high as $200,000.

2. **Higher tax deductions** – an additional plan with higher limits can provide a significantly higher level of tax-deductible contributions for the business.

3. **Flexibility** – similar to 401(k) Profit Sharing plans that allow for customization of benefit levels amongst owners and employees, Cash Balance plans can provide similar customization of benefit levels.

Who makes the contributions?

All contributions to a Cash Balance plan are made by the Employer.

How is a Cash Balance Plan invested?

Cash Balance plan contributions must be invested in common (no individual participant direction of investments is allowed) by the Trustee. All investment risk is borne by the Employer. There are potential risks in both over-funding the plan and under-funding the plan. Therefore, it is extremely important to use the services of an investment advisor that has familiarity with Defined Benefit Plan investing principles.

How can I determine if a Cash Balance Plan will make sense for me?

Each employer is a little different, so it will depend upon your objectives. However, these indicators are commonly present in good Cash Balance candidates:

1. Strong recurring earnings and cash flow in the business
2. Owners who are older relative to most of their employee group
3. A willingness to provide higher benefit levels to employees in order to achieve higher benefits for the owners
4. Employer has strong accounting and investment advisors
5. More than one employee in the business. (A one person business can achieve similar results with a traditional Defined Benefit plan)

What are the first steps toward starting a Cash Balance Plan?

We will need to see complete census data for your business. In addition, if you currently maintain a 401(k) plan, we will need to see your plan document and most recent annual report for that plan. From there, we can discuss your objectives and determine if adding a Cash Balance plan will help achieve them. We will work with your investment advisor and accounting/legal professionals to ensure good communication.

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