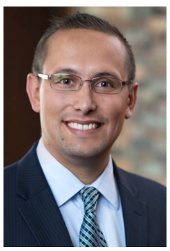
A Cash-Balance Plan Can Supercharge Your Retirement Savings

Cash-balance plans can be an attractive alternative for business owners looking to accelerate their retirement savings.



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Thomas Taranto is a Senior Financial Advisor in the Youngstown, Ohio office of HBKS® Wealth Advisors (HBKS®). He joined HBKS® in 2011. Mr. Taranto has extensive experience working with high net-worth families on comprehensive financial planning, estate planning, insurance planning and asset management services.

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"I'm putting my money back into my business." It's a common theme and successful strategy among small business owners focused on growing their companies. However, it can also work to their detriment when it comes to preparing for retirement. Many small business owners looking at their and their employees' retirement savings realize they will fall short of their aspirations.

One popular way to address such a deficiency is a "cash-balance plan." Cash-balance plans are particularly attractive to business owners looking to accelerate retirement savings in a tax-advantaged way. Like a 401(k) plan, contributions to a cash-balance plan are tax deductible; the assets in the plan qualify for tax deferral and creditor protection under ERISA. However, you can contribute much more to a cash-balance plan than to your 401(k), up to more than $235,000 in 2016 for an individual age 60 or older (see chart).

How Does a Cash-Balance Plan Work?

A cash-balance plan is a defined-benefit plan that specifies the contribution credited to each participant as well as a defined lump sum to be provided to the participant at retirement. Each participant has an account – a plan actuary maintains account balances and generates annual statements. Participant accounts grow in two ways: one, the annual contribution specified by the plan; and two, an annual interest credit at a rate of return guaranteed by the plan. The contribution and interest rate are independent of any plan investment performance. When employment ends, the vested balance of the participant's account is eligible for rollover or distribution.

Who Should Consider a Cash-Balance Plan?

Because the tax-deductible amount that can be set aside is so much larger than a 401(k), and because qualifying amounts increase dramatically with age, cash-balance plans have become most popular with older business owners looking to supercharge retirement savings. Most likely participants are:

- Business owners wanting to contribute more than $53,000 per year to retirement accounts
- Business owners over age 40 who want to accelerate retirement savings

- Companies with consistent profitability (enough to ensure contributions can be made)
- Owners in high tax brackets desiring additional tax deferral opportunities

How Much Can You Contribute?

Cash Balance plans pair well with the more widely used 401(k) plan vehicle. Maximum contributions by plan for 2016:

Age	Cash Balance Contribution	401(k) Contribution	Total Retirement Plan Contribution
30	$47,265	$18,000	$65,265
40	$80,736	$18,000	$98,736
50	$137,908	$24,000	$161,908
60	$235,567	$24,000	$259,567

Additional qualified retirement plan contributions may be possible depending on the profit sharing plan structure adopted by the plan.

What Makes Cash-Balance Plans Attractive to Small Business Owners?

- Cost and Tax Efficiency – tax deduction benefits and increased retirement savings at a reasonable cost
- Asset Protection – assets protected in the event of bankruptcy or lawsuit
- Attracting and Retaining High Quality Employees – using the plans as recruiting tools
- Catching Up on Delayed Retirement Savings – a significant addition to a more traditional vehicle like the 401(k)

Cash balance pension plans are a rapidly growing yet still underutilized segment of the business retirement plan universe. Talk with your CPA and CFP® to see if a cash-balance plan should be part of your retirement strategy. □