DANZIGER & MARKHOFF LLP

Attorneys at Law

CASH BALANCE PLANS: THE SMART WAY TO INCREASE YOUR TAX-DEDUCTIBLE PLAN CONTRIBUTIONS

A "Cash Balance Plan" is an integral component of retirement plan design which allows you to make substantially larger tax-deductible contributions than those permitted under profit-sharing and similar defined contribution plans (DC Plans). Cash Balance Plans use easily understandable individual account balances not available under a traditional defined benefit pension plan. Each plan participant has his or her own account balance that is credited annually with a contribution and a specified rate of return.

Ideal candidates for Cash Balance Plans are successful businesses with two or more owners. In a Cash Balance Plan, similar or varying contributions can be made on behalf of each owner, and each owner will know the exact amount of the contribution attributable to him. Naturally, Cash Balance Plans can be successfully implemented for a sole proprietorship that produces substantial profits.

When a Cash Balance Plan is combined with a DC Plan, the combination of the two plans gives the business both an increased tax deduction and substantial flexibility for each year's contributions.

The Table below illustrates how you can make an additional tax-deductible plan contribution to a Cash Balance Plan (see Row D) even after contributing the maximum $53,000 to a DC Plan (Row A plus Row B equals the maximum $53,000).

The Table shows one example of an allocation maximized for the owner; the assumption is that the staff contribution will be as low as IRS rules permit, and the owner's compensation is at least $265,000.

The most important factor is to ensure that the cost for covering the staff does not outweigh the benefit of the plan to the business owners. A thorough analysis of employee data, combined with creative planning concepts, often result in a successful outcome for the business owners. Obviously, it would be imprudent for a business owner to think of proceeding without the benefit of such an in-depth analysis.

If you want to make a plan contribution for yourself in excess of $53,000, a Cash Balance Plan is the answer.

To learn more about Cash Balance Plans, please contact Andrew E. Roth, Esq. at 914-948-1556 ext. 8033 or by email at <u>aroth@dmlawyers.com</u>

	Type of Plan or Plan Feature	**Contribution Amount for Owner**
A.	Profit-Sharing Plan – Employer Discretionary Contribution	$ 35,000.
B.	401 (k) Salary Reduction Plan - Employee Discretionary Contribution	$ 18,000.
C.	Additional "Catch-Up": Owner Age 50 or older	$ 6,000.
D.	Cash Balance "Add-on" Plan [On top of Employer's DC Plan]	$ 47,150.*
E.	Total Contribution: Owner under Age 50 [A+B+D]	$ 100,150.
F.	Total Contribution: Owner Age 50 or older [A+B+C+D]	**$** 106,150.

*Note also that depending upon the level of staff compensation, and the age of the owner, the amount that can be contributed for the owner may be substantially larger.