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FALL 2011

CASH BALANCE PLANS: HOW TO INCREASE YOUR TAX-DEDUCTIBLE PLAN CONTRIBUTIONS

A “Cash Balance Plan” is the integral component of an innovative 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 provide for easily understandable individual account balances not otherwise available under a 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 businesses with two or more owners who may have different ages. In a Cash Balance Plan, similar or varying contributions can be made on behalf of each owner independent of their ages, and each owner will know the exact amount of the contribution attributable to him.

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

The Table below illustrates how you can make an increased tax-deductible plan contribution to a Cash Balance Plan (see Row D) even after contributing the maximum $49,000 to a DC Plan. (Row A plus Row B equals the maximum $49,000).

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 $245,000.

Note also that depending upon the level of staff compensation, the Cash Balance amount that can be contributed for the owner (Row D) may be even larger.

	Type of Plan or Plan Feature	**Contribution Amount for Owner ***
A.	Profit-Sharing Plan - Employer Discretionary Contribution	$32,500
B.	401(k) Salary Reduction Plan - Employee Discretionary Contribution	$16,500
C.	Additional “Catch-Up”: Owner over Age 50	$ 5,500
D.	Cash Balance “Add-on” Plan - [On top of Employer’s DC Plan]	$43,450
E.	Total Contribution: Owner under Age 50 [A+B+D]	$92,450
F.	**Total Contribution**: Owner over Age 50 [A+B+C+D]	**$97,950**

*Contributions can be significantly increased for Pension Benefit Guaranty Corporation (PBGC) cases.

When a business owner needs a substantially larger tax deduction, a stand-alone Cash Balance Plan is the answer. Depending on the business owner's age, contributions can range from $75,000 to $200,000 (or more) each year. If the facts warrant it, we can even add on a DC Plan that will provide the owner with an *additional* $31,000 to $36,700 (depending on the owner's age). However, such plans require careful analysis and preparatory actuarial studies.

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 owner. A thorough analysis of employee data combined with creative planning concepts often result in a successful outcome for the business owner. Obviously, it would be foolhardy for a business owner to think of proceeding without the benefit of such an in-depth analysis.

Proper design, implementation and administration of Cash Balance Plans can dramatically increase contributions on behalf of business owners. The increases range up to an additional $40,000 (or more in many cases), even when the business owners are already fully funding contributions under their existing DC Plans. The increases can even be up to $200,000 (or more) when a stand-alone plan is used. If you want to make a plan contribution for yourself in excess of $49,000, a Cash Balance Plan is the answer. ■

If you have any questions regarding Cash Balance Plans, please contact Ira Langer, Esq., or Andrew E. Roth, Esq.

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