

Are your clients candidates for a Cash Balance Plan?

Heritage Administrative Services LLC

The recent popularity of cash balance plans has raised the interest with both employers and Financial Advisors. Heritage Administrative Services specializes in all types of qualified plans, especially Cash Balance Plans. This article seeks to define which employer demographics may be the most suitable candidate for a cash balance plan.



Retirement is approaching. Are you ready?

To start with, a cash balance plan is a defined benefit plan. Generally referred to as a “hybrid plan”, cash balance plans share many features of both a traditional defined benefit plan and a profit sharing plan. All types of business entities can sponsor a cash balance plan. Whether a cash balance plan is right for a company will depend on their goals and intentions. For many employers, the primary goal is to add a benefit that helps reward and retain key employees. That group can include the owners or partners of the entity. Once goals for the owners/ partners have been established, it can then be determined what the overall cost for the rest of the employees will be. This ratio will generally be the deciding factor in choosing whether a cash balance plan should be added as a benefit.

As Heritage administers many cash balance plans, we

can provide general characteristics of successful businesses that have added a cash balance plan as an employer benefit. Some of these characteristics include: **The Company must have a consistent, profitable history.** A cash balance plan requires regular, consistent contributions. An important question to start with is: does the company have a history of positive cash flow sufficient to make these contributions? Companies that have one single great year but have flat earnings the next are not ideal candidates.

Large enough budget. The cash balance plan is an additional employer benefit that will require contributions and will incur administrative costs. Generally, we recommend that an employer should be contemplating to contribute, cumulatively, at least \$100,000 so that adding the cash balance plan makes fiscal sense.

Company must be relatively small in size.

If the goal is to maximize contributions to key employees/ owners, the size of the company is extremely important. Our experience has shown that companies with fewer than twenty eligible employees often make the best candidates for cash balance plans.

Multiple owners or Partners One of the great advantages of a cash balance plan is the flexibility of design. This includes the ability to establish different categories within owners or partners. This level of flexibility is not available under a traditional defined benefit plan and may have been a contributing factor as to why a company would not implement a defined benefit plan in the past. Under a cash balance plan, this flexibility makes multiple owners or partners archetypal candidates.

Employer currently sponsors a 401(k)/profit sharing plan and makes an employer contribution.

Cash balance plans require an employer contribution; all eligible employees will receive a benefit. When an employer sponsors a 401k/ profit sharing plan it demonstrates the employers’ willingness to make a contribution for the employees. Additionally, profit sharing contributions that are earmarked for the employees can be used to offset the cash balance contribution as they are cumulatively aggregated for each employee. As the administrator, it must recognize both plans when we do our calculations to ensure that all employees have equal benefits at retirement.

When Heritage runs a proposal for companies that have these five characteristics, the implementation rate is seventy percent. Frequently enough, however, is that companies that do not initially meet these requirements will often implement a cash balance plan in the following tax year after restructuring their internal operations to comply with these suggestions.

Are your clients candidates for a Cash Balance Plan?

If you are an employer or an advisor who would like to learn more about how cash balance plans may work for you or one of your clients, please contact our office.

Article written by Francis J. Mullady,
Member of Heritage Administrative Services
LLC. Should you have any questions
regarding this article, you may contact

Phone: 631-423-0505

Fax: 631-423-9656

E-mail: FMullady@HGTPA.com

About Heritage Administrative Services LLC

Heritage Administrative Services LLC is more than just a record-keeping firm. We provide a complete range of consulting, research, administration and communication services throughout the entire field of tax-qualified plans, non-qualified plans, investment analysis and estate planning.

At Heritage Administrative Services LLC, we recognize that your goal is to provide employee benefit plans which will be both understood and appreciated. Furthermore, we know that these benefits should be offered at a reasonable cost to your organization. Maintaining well-designed and administered employee benefit plans is an effective way to attract, retain and reward quality employees. They serve to position an organization for optimum growth, stability and

Contact An Office Near You

Main Office

135 Crossways Park Drive, Suite 402

Woodbury, NY 11797

Tel: (631) 423-0505

Fax: (631) 423-9656

Toll Free: (888) 863 6853

Branch Offices

New York, New York

Tampa, Florida

San Francisco, California

Dallas, Texas

Williamsburg, VA



HERITAGE ADMINISTRATIVE SERVICES
