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Top 10 Questions Advisors Ask About Cash Balance Plans

With taxes on the rise, high earners are searching for ways to reduce tax liability while accelerating retirement savings. Financial advisors have a unique opportunity to stand out from the crowd by explaining the tax-mitigating power of Cash Balance plans. Understanding the answers to these top 10 questions can help open doors to new clients and add value to existing relationships.

1 What are the best conversation starters to generate interest from business owners about Cash Balance plans?

Since Cash Balance plans are most often adopted for tax deferral purposes, "*Are you looking for a larger tax deduction?*" comes in as the best opener. "*Would you like to save more money for retirement in a tax-favored fashion?*" is a close second. "*Would you like to potentially accelerate ten years of retirement savings into five?*" rounds out at third.

2 Is there an ideal ratio of owners to employees where a Cash Balance plan makes the most sense?

Yes and no. Yes, normally a ratio of 1:10, owner to staff, is ideal. But no, in that we've seen higher ratios that also make sense if the required contribution to staff employees is meaningful to them and the company.

3 Does everyone in the company need to be included in the Cash Balance plan? What criteria can be used for selection?

No, everyone does not need to be included in the Cash Balance plan. The lesser of 40% of eligible employees, or 50 eligible employees, are all that are required to be covered by the Plan (with a minimum of at least two eligible employees, unless there is only one employee). So, for most smaller companies it will be 40%, and the plan sponsor can choose by job class or another criterion that suits their business goals.*

4 Why are contribution amounts so high for people over 50?

People over age 50 typically have fewer years until retirement, therefore they can have more contributed for them by the employer every year. Click here to see Cash Balance plan contribution limits by age.

5 Does every Cash Balance plan paired with a 401(k) Profit Sharing plan require 7.5% of pay for all staff?

No. The "*gateway contribution*," which is what this amount is called, ranges from 5% of pay to 7.5% of pay as an employer contribution (not including match) to the 401(k) profit sharing plan. Generally, if only 5% of pay is contributed, it will limit Cash Balance amounts for the owners to about $50,000 each.

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When is a Cash Balance plan not a good idea?

A Cash Balance plan is not appropriate if there are wide swings in profits from year-to-year, if there is major uncertainty about future profits, or if the "*give*" (cost) to employees is too great relative to the "*get*" (tax deferral) for owners. Generally, Cash Balance plans are compelling when the total cost to staff is less than the tax rate paid by the owners.

7

What's the best marketing piece for selling a Cash Balance plan?

The Plan Design Illustration is what everyone gravitates toward since it is easy to understand. The visual elements help illustrate the tax-deferred, retirement savings for the owners and an estimated cost to staff. If you can learn your way around explaining an Illustration to a prospect, you can absolutely sell Cash Balance plans. To receive a free Cash Balance proposal, fill out this quick form here.

8

What concerns should I have about over and underfunding issues in a Cash Balance plan?

Funded status is an important but manageable concern. IRS rules over the last 10 to 15 years have increased the range of annual contribution from "Minimum required" to "Maximum deductible," which gives plan sponsors more latitude to manage funding from year to year. FuturePlan has helped clients to manage through the Great Recession of 2008, the COVID pandemic of 2020, and other downturns in the market, as well as help ensure plans are not overfunded during extended bull markets.

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Why do companies strategically terminate their Cash Balance plans?

Sponsors normally terminate for a business reason, such as no need for the plan anymore, poor company profits, a recession, or to reduce liability to the company. Sponsors may also terminate a Cash Balance plan that's been around many years (usually 10 or more) to allow the distribution of retirement benefits. It also provides an opportunity to set up a successor plan that is better suited to the changing demographics of the business.

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How many years does an owner have to commit to contribute to a Cash Balance plan?

There is no stated number of years by the IRS, however, the plan needs to have some sense of permanency, and if terminated, there needs to be a good business reason for doing so. In general, 10 or more years is preferable to reduce the likelihood of IRS scrutiny about the intention of the Cash Balance plan.

Why FuturePlan?

Since the early 1990s, FuturePlan's Cash Balance Center of Excellence's core team has been designing and administering these plans successfully. And in this space, experience matters. Serving more than 4,500 Cash Balance Plans, and hundreds of law firms as clients, FuturePlan brings deep expertise and options to the design table.

Have an active prospect or need a custom proposal? Contact the FuturePlan National Sales Desk here.
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* The plan must satisfy the coverage requirements under 410(b) as a standalone plan or in the aggregate with a paired defined contribution plan.

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