

Cash Balance Plan Case Study

Small Business

2024



Cash balance plans can be a win-win retirement solution for small business owners. By combining a cash balance plan with an existing 401(k) profit-sharing plan, small business owners have the potential to make large, deductible contributions for themselves—often \$150,000 or more annually—while limiting the total cost of offering a plan to employees.

WHY CASH BALANCE PLANS FOR SMALL BUSINESSES?

Cash balance plans:

- Reduce taxable income
- Are a powerful tool for recruiting and retaining top talent
- Help owners catch up on delayed retirement savings
- Fully protect assets from creditors
- Are portable and allow lump-sum rollovers into an IRA

SMALL BUSINESS OVERVIEW

- Two owners, a married couple
- Four staff members
- The small business currently maintains a 401(k) profit-sharing plan

CHALLENGES

- Owners are older (ages 68 and 58) and need to accelerate their retirement savings
- Owners have a profitable business and want to minimize their taxes
- The couple was reaching contribution restrictions with a traditional 401(k) profit-sharing plan

Companies with
nine or fewer
employees
make up over
60% of all cash
balance plans.¹

PLAN DESIGN SOLUTION

- FuturePlan designed a cash balance plan allowing the below contribution amounts for the owners.
- The couple was able to make the maximum allowable cash balance contribution for their respective ages, resulting in a total contribution of \$580,150 for both owners.²
- The couple can save over \$230,000 in taxes.
- The cash balance contribution largely depends on profitability—and only a profit-sharing contribution of 7.5% of pay is required for all other employees.

Cash Balance Plan Illustration

Year Ending December 31, 2024

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contribution	Tax Savings*
2 Owners							
Owner 1	68	\$345,000	\$30,500	\$46,000	\$379,215	\$455,715	\$182,286
Owner 2	58	\$65,000	\$30,500	\$3,900	\$90,035	\$124,435	\$49,774
Subtotals		\$410,000	\$61,000	\$49,900	\$469,250	\$580,150	\$232,060
4 Staff				7.5% of pay			
Employee 1	40	\$51,000		\$3,825	\$700	\$4,525	
Employee 2	33	\$41,000		\$3,075	\$700	\$3,775	
Employee 3	26	\$34,000		\$2,550	\$700	\$3,250	
Employee 4	43	\$21,000		\$1,575	\$700	\$2,275	
Subtotals		\$147,000	\$0	\$11,025	\$2,800	\$13,825	\$5,530
Grand Totals		\$557,000	\$61,000	\$60,925	\$472,050	\$593,975	\$237,590
Percent of Contribution to Owners						97.7%	

**Important: If you want to obtain your own, or your client's personalized scenario, please provide FuturePlan with a full, up-to-date owner and employee census in order to receive a customized plan design illustration. FuturePlan by Ascensus does not provide tax, legal, or accounting advice. This material has been prepared for informational and illustrative purposes only, and is not intended to provide, and should not be relied on for, tax, legal, or accounting advice. You or your client should consult your/their own tax, legal, and accounting advisors before engaging in any transaction. FuturePlan by Ascensus provides plan design, administration, and compliance services. It is not a broker-dealer or an investment advisor and does not provide tax, legal, or accounting services. (SEE REVERSE FOR ADDITIONAL DISCLOSURES.)*



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, FuturePlan brings deep expertise and options to the design table. We are among the country's leading administrators of cash balance plans.

Backed by the strength and security of Ascensus, we're a technologically advanced national organization with the heart and soul of a hands-on business partner. Visit futureplan.com to connect with our cash balance plan experts or to request a custom illustration.

¹FuturePlan National Cash Balance Research Report, 12th Annual Edition.

²Includes the 401(k) profit-sharing plan.

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*(Plan Limits) \$23,000 for 401(k) plan; \$7,500 catch-up; \$46,000 profit sharing. This chart assumes a 45% tax bracket of combined federal and state taxes and taxes are deferred. The following assumptions also apply:

- Maximum annual contribution amounts for the cash balance/defined benefit plan are calculated using 4% interest rates and assuming no pre-retirement mortality and using the latest available applicable mortality tables.
- The maximum cash balance amounts assume a 3-year average compensation of at least \$275,000 (the maximum annuity limit for 2024), and prior years of service.
- The amounts needed to fund the cash balance/defined benefit plan may be reduced by a participant's prior highest 3-year salary history if it is less than the IRS maximum annuity limit (as shown above) or below the IRS maximum compensation limits under 401(a)(27) (e.g., \$345,000 for 2024, \$330,000 for 2023, etc.) and other deduction limits may apply.
- The amounts needed to fund in the cash balance/defined benefit plan will also be reduced if a participant participated in any prior cash balance/defined benefit plan of the employer or a related employer.
- Further, amounts shown may be reduced if the cash balance/defined benefit plan is not covered by the Pension Benefit Guaranty Corporation (PBGC), which may limit the amount available to fund in any paired 401(k) profit sharing plan of the employer. (Plans typically not covered by the PBGC are professional service businesses with less than 26 active participants.)
- It is also important to note that amounts shown are estimates and will vary depending on an employer's demographics of owners and employees along with a myriad of other factors and considerations.

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