Qualified Retirement Plans:

A Study and Review

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RETIREMENT PLAN COMPARISON CHART

FUTUREPLAN by ASCENSUS

	IRA-Based Plans		Defined Contribution Plans			Defined Benefit Plans
	These plans offer participants the opportunity to establish their own IRA to manage their investments. They're typically the least expensive to establish and maintain, but also provide less flexibility for contributions and plan design.		Defined contribution plans offer the most contribution and plan design flexibility. Typically they're more expensive to maintain than an IRA-based plan.			These plans provide participants with a pre-determined retirement benefit. Contributions are calculated to fund future benefits according to the plan document. Defined benefit plans require the service of an actuary.
Employer Availability	**SEP IRA**	**SIMPLE IRA**	**401(k)**	**Individual(k)**	**Profit Sharing**	**Defined Benefit**
Types of employers eligible to establish plan	Generally for smaller employers; corporations, sub-chapter S corporations, LLCs, proprietorships, partnerships, not-for-profits and government entities	For employers without a plan and with 100 employees or less; corporations, sub-chapter S corporations, LLCs, proprietorships, partnerships, not-for-profits and government entities	Corporations, sub-chapter S corporations, LLCs, proprietorships, partnerships, not-for-profits and Indian Tribal government entities	Must not have any eligible employees other than a spouse or business owner(s). Available for corporations, sub-chapter S corporations, LLCs, proprietorships, partnerships and not-for-profits	Corporations, sub-chapter S corporations, LLCs, proprietorships, partnerships, not-for-profits and government entities	Corporations, sub-chapter S corporations, LLCs, proprietorships, partnerships, not-for-profits and government entities
Employer Contributions	**SEP IRA**	**SIMPLE IRA**	**401(k)**	**Individual(k)**	**Profit Sharing**	**Defined Benefit**
2022 limit	$61,000 or 25% of eligible compensation, whichever is less	*Option 1:* Match employee contribution up to 3% of compensation *Option 2:* Non-elective 2% of compensation to all eligible employees	$61,000 or 100% of eligible compensation, whichever is less. Employer deductibility is limited to 25% of the total eligible participant compensation	$61,000 or 100% of eligible compensation, whichever is less. Employer deductibility is limited to 25% of the total eligible participant compensation	$61,000 or 100% of eligible compensation, whichever is less. Employer deductibility is limited to 25% of the total eligible participant compensation	Determined by an actuary; maximum benefit is $245,000 as a lifetime annuity at retirement. Contributions to fund the maximum can range from $135,000 at age 45 to $295,000 at age 65.
Vesting schedule allowed	No	No	Yes, but employee 401(k) deferrals are always 100% vested	Yes, but employee 401(k) deferrals are always 100% vested	Yes	Yes
Mandatory employer contributions	No	Yes	No	No	No	Yes
Allows formulas to benefit highly compensated employees	No	No	Yes, if profit sharing is allocated.	Yes, if profit sharing is allocated.	Yes	Yes
Employee Contributions	**SEP IRA**	**SIMPLE IRA**	**401(k)**	**Individual(k)**	**Profit Sharing**	**Defined Benefit**
2022 annual deferral contribution limit	N/A, unless a grandfathered SAR-SEP Plan established prior to 1/1/97	$14,000	$20,500	$20,500	N/A	N/A

RETIREMENT PLAN COMPARISON CHART

Employee Contributions	SEP IRA	SIMPLE IRA	401(k)	Individual(k)	Profit Sharing	Defined Benefit
2022 catch-up contribution limit	N/A	$3,000	$6,500	$6,500	N/A	N/A
Rollovers from other qualified or IRA plans allowed	Yes	Yes, however non SIMPLE IRA assets must meet a 2-year clock	Yes, but must be specified in the plan document	Yes, but must be specified in the plan document	Yes, but must be specified in the plan document	Yes, but typically not permitted by the plan

Most Restrictive Participation Requirements	SEP IRA	SIMPLE IRA	401(k)	Individual(k)	Profit Sharing	Defined Benefit
Age	21	N/A	21	21	21	21
Service	Three out of five preceding years of service requirement	Two years	Employee Deferrals: One year of service (1,000 hours) requirement, or if earlier, starting in 2024, after 500 hours in three prior years Employer Contributions: *Option 1*: One year of service (1,000 hours) requirement with vesting schedule *Option 2*: Two years with immediate vesting	Employee Deferrals: One year of service (1,000 hours) requirement, or if earlier, starting in 2024, after 500 hours in three prior years Employer Contributions: *Option 1*: One year of service (1,000 hours) requirement with vesting schedule *Option 2*: Two years with immediate vesting	*Option 1*: One year of service (1,000 hours) requirement with vesting schedule *Option 2*: Two years with immediate vesting	*Option 1:* One year of service (1,000 hours) requirement with vesting schedule *Option 2:* Two years with immediate vesting
Compensation	Earned a minimum of $650 in the current calendar year	Earned a minimum of $5,000 in any two previous years and is expected to earn $5,000 in the current year	N/A	N/A	N/A	N/A

Special Features Available	SEP IRA	SIMPLE IRA	401(k)	Individual(k)	Profit Sharing	Defined Benefit
Loans	No	No	Yes	Yes	Yes	Yes, but typically not permitted by the plan
Roth Deferrals	N/A	No	Yes	Yes	N/A	N/A

Reporting and Testing Requirements	SEP IRA	SIMPLE IRA	401(k)	Individual(k)	Profit Sharing	Defined Benefit
IRS Form 5500 (required if plan has rank-and-file employees or $250K+ in plan assets for Individual(k) Plans)	No	No	Yes	Yes	Yes	Yes
Annual discrimination and compliance testing	No	No	Yes	No	Yes	Yes

SEP/SIMPLE

SEP/SIMPLE Plans

- Both use IRAs
- No annual government reporting
- All money immediately vested
- Loans prohibited
- SEP cannot have 401(k) feature
- SIMPLE has 401(k) feature, but lower limits

SEP/SIMPLE Plans

- SIMPLE must be only plan
- SEP document (Form 5305-SEP) used if only plan
- SIMPLE requires employer contributions
  - 100% match to 3% of pay or
  - Flat 2% of pay non-elective

Types of Qualified Plans

Defined Contribution

- Profit sharing, money purchase, 401(k)
- Individual limit: Lesser of 100% of compensation or $61,000 (as of 2022) Corporate deductible limit: 25% of eligible compensation
- Individual account balances

Defined Benefit

- Traditional defined benefit and cash balance defined benefit
- Benefit at normal retirement age (NRA): Limited to lesser of 100% of compensation or
- $245,000/year (as of 2022)
- Corporate deductible limit: Amount necessary to fund the defined benefit

Defined Contribution: Profit Sharing

Profit Sharing

Discretionary contribution up to 25% of eligible compensation (excludes employee deferrals to 401(k) plans)

Salary ratio

Contributions allocated based on compensation

Integrated

Contributions allocated based on compensation plus compensation in excess of Social Security wage base (SSWB)

Defined Contribution: Profit Sharing

Age weighted

Contribution allocated based on age and compensation

New comparability

Contributions allocated based on separate employee groups

401(k)

Allows employees to defer a portion of their pay for retirement ($20,500 for 2022)

401(k) Plans

401(k) Plans

ADP

Average Deferral Percentage Test

ACP

Average Contribution Percentage Test

HCE

Highly Compensated Employee (NHCE=Non-Highly Compensated Employee)

- Anyone in the current or look-back year who is a 5% owner or had compensation of more than $135,000 in 2021

NHCE	1.00%	2.00%	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%
HCE	2.00%	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%	11.25%	12.50%

Safe harbor 401(k) plans

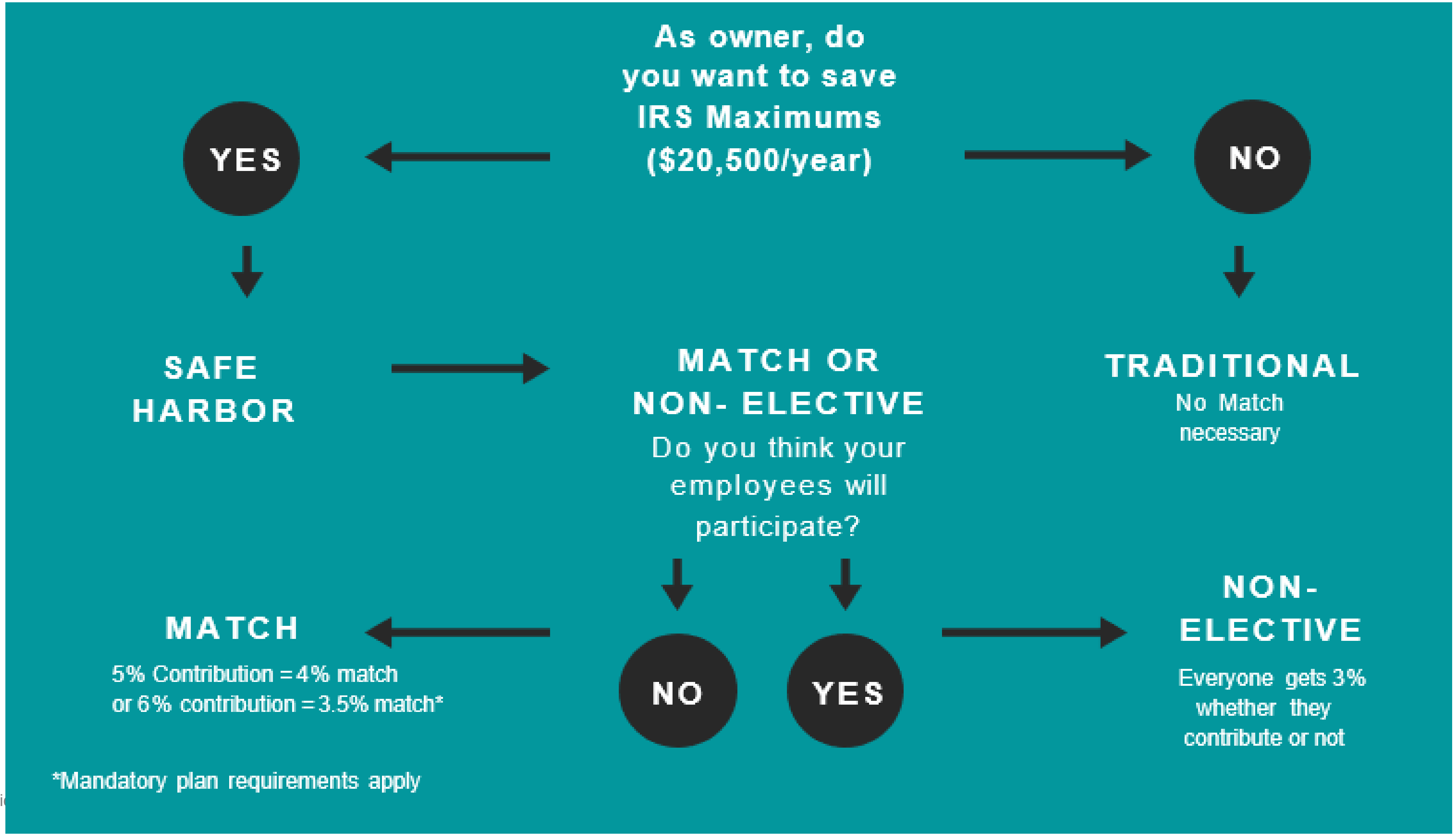
- Two main requirements to satisfy safe harbor rules
- Required employer contribution of either 3% of pay for all NHCEs, or providing a matching contribution of 100% of the first 3% of deferrals, plus 50% of the next 2% of deferrals
- 100% vesting on safe harbor contributions

Catch up contributions

- Any participant who attains age 50 at anytime during the plan year
- Amount is $6,500 (as of 2022)
- Amounts do not count towards ADP test or against IRC 415

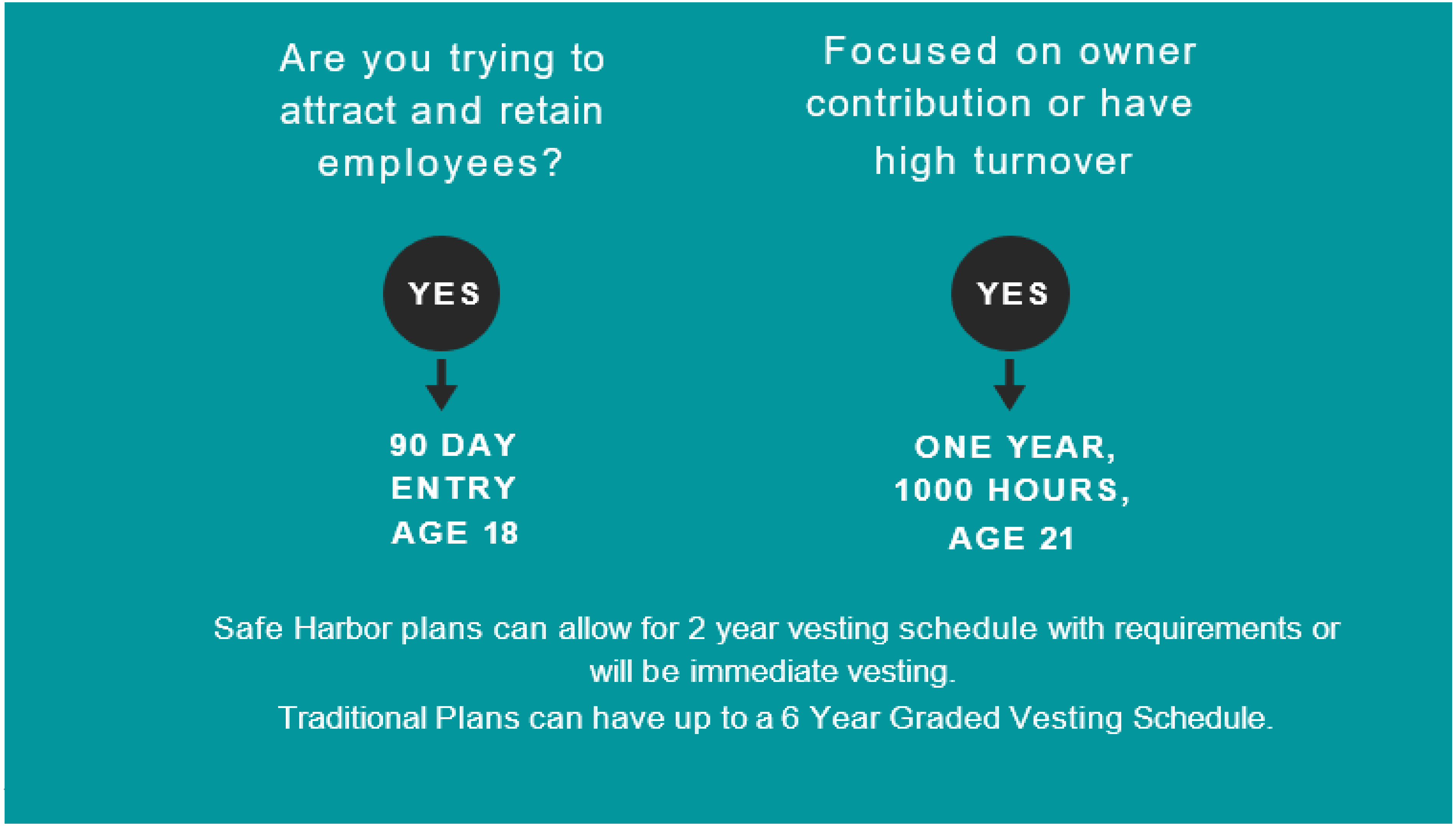
Should You Go Safe Harbor or Traditional 401(K)?

A helpful guide to design your plan



Entry & Eligibility

A helpful guide to design the 401(k) plan



CREATING A 401(K) YOUR WAY

Eligibility Choices	Check the box
One year/1000 hours	
6 Months of service	
90 days of service	

Eligibilty Choices	Check the box
Age 21	
Age 18	
No Age Requirement	

Entry Choices	Check the box
Semi-Annual	
Quarterly	
Monthly	

Default Selections

Money Sources
Pre-Tax
Roth

Exclusions:
Union
Leased Employees
Non-Resident Aliens
Citizens of Puerto Rico

Distributions:
59.5 In-service Distributions of vested balances
Retirement Age: 65
Early Ret. Age 55 and 5 years of service
Forceout: $5,000 or less

Traditional		
Limitations:	Match is discretionary or defined	Vesting up to 6 years
	Profit sharing discretionary	Vesting up to 6 years
	Highly Compensated Employees can only contribute 2% greater than the average of non-highly compensated	
	Plans must pass ADP/ACP and Top Heavy Tests every year	

Safe Harbor	Match is defined and notices must be provided	
Traditional Safe Harbor Match:	100% Match on First 3%, 50% match on next 2% for a total of 4% match on a 5% employee contribution	Immediate Vesting
Enhanced Safe Harbor Match:	100% Match on 4% for a total of 4% match on a 4% employee contribution	Immediate Vesting
Non-Elective Contribution:	3% contribution to all employees- regardless if they are contributing	Immediate Vesting
QACA* Safe Harbor Match:	100% on first 1%, 50% on next 5%, for a total of 3.5% match on a 6% employee contribution	2 Year Cliff Vesting
QACA* Non-Elective:	3% contribution to all employees- regardless if they are contributing	2 Year Cliff Vesting

*QACA rules:	Plans must have automatic enrollment at a minimum of 3%. They must auto increase by 1% ever year if the enrollment percentage is below 6%. Plans can allow for automatic enrollment at 6% and not require a 1% increase.

Non-Elective Contribution usually works the best if the plan wants to do a profit sharing contribution. Up to a 6 year vesting schedule can apply to profit sharing.

Optional Choices:	
Loans	2 Loans Max, 5 years for all loans 15 year or 30 to buy house Typically Prime Plus 2
3(16) Services:	Allows FuturePlan to act as administrative fiduciary, providing notices to all and filing 5500 on behalf of plan sponsor *Extra Fee*

Controlled Group (For Profit Organizations)

Under IRC Sec. 414, there are three basic types of controlled groups.

The three types are
- **parent-subsidiary,**
- **brother-sister, and**
- **combined.**

A Controlled Group is a group of one or more businesses that have common ownership. A controlled Group is considered one entity for pension plan purposes.

Under IRC Sec. 414, there are three basic types of controlled groups. The three types are parent-subsidiary, brother-sister, and combined.

Parent-Subsidiary

A parent-subsidiary controlled group consists of two primary components—a parent organization and one or more subsidiary organizations. There are two requirements for a group of businesses to constitute a parent-subsidiary controlled group.

1. Parent Organization Requirement

The parent organization must own 80 percent or more of the proposed subsidiary organization(s). This 80 percent requirement is referred to as a "controlling interest."

2. Subsidiary Organization Requirement

At least 80 percent of the subsidiary organization(s) must be owned (individually, or in aggregate) by the proposed parent organization.

NOTE: For purposes of applying the limitations under IRC 415 maximum benefits limitations, a parent-subsidiary relationship exists if the "controlling interest" is **more than 50 percent** *of the subsidiary.*

Brother-Sister Controlled Groups

Brother-sister controlled groups are based on one or more persons who have ownership interests in more than one organization. "Persons" can be individuals, estates, trusts, or any business entity.

There are basically two requirements for a group of businesses to constitute a brother-sister controlled group.

1. Controlling Interest (80% Requirement)

The same five or fewer persons must own, in aggregate, at least 80 percent of each of the organizations in the proposed brother-sister controlled group. As with parent-subsidiary determinations, this 80 percent ownership requirement is referred to as a "controlling interest."

2. Effective Control (>50% Requirement)

The same five or fewer persons used to meet the controlling interest requirement (above) must also have "effective control" of each organization. Effective control means ownership of more than 50 percent of each organization. When testing for effective control, a person's ownership is taken into account only to the extent that he or she has that great an ownership interest in each of the organizations being tested. (This is referred to as identical ownership.) For example, if Pam owns 10 percent of Company A and 20 percent of Company B, Pam will only be considered as owning 10 percent of each company for the purpose of ascertaining whether the effective control requirement is met

(**NOTE:** *For purposes of determining controlling interest (requirement #1), Pam's full ownership in each company is counted.)*

EXAMPLE—BROTHER-SISTER

	X CORP	Y CORP	*Requirement 2*
A	25%	35%	25%
B	40%	60%	40%
C	35%	5%	5%
Requirement 1	100%	100%	70%

As expressed in the preceding chart, individuals A, B, and C have ownership interests in Corporations X and Y. A, B, and C are the only persons who have ownership in **both** Corporations.

Controlling Interest
A, B, and C have a controlling interest in both Corporation X (25% + 40% + 35% = 100%) and Corporation Y (35% + 60% + 5% = 100%) since they together own at least 80 percent of X and at least 80 percent of Y.

Effective Control
When testing for effective control, an individual's ownership interest is only taken into account to the extent that such individual owns an equivalent (or greater) amount in each of the organizations. Accordingly, since A's ownership interests are 25 percent and 35 percent, A is considered to own 25 percent of both Corporation X and Y for the effective control test. In the same manner, B is considered to own 40 percent (i.e., the lesser of 40 percent or 60 percent) of Corporations X and Y for the effective control test and C is considered to own 5 percent. A, B, and C have effective control of Corporations X and Y because their respective ownership interests for effective control testing (25 percent, 40 percent, and 5 percent) exceeds 50 percent when added together.

Because A, B, and C have a controlling interest (requirement #1) of at least 80 percent and have effective control of greater than 50 percent (requirement #2), Corporations X and Y are members of a brother-sister controlled group.

Combined Controlled Groups

A combined controlled group is a controlled group which consists of both a parent-subsidiary controlled group and a brother-sister controlled group where a common parent organization from the parent-subsidiary controlled group is also a member of a brother-sister controlled group.

Other Issues

In determining ownership you need to be aware of circumstances where **constructive ownership** may exist.

A. Spouse
B. Children, Grandchildren, Parents and Grandparents
C. Attribution from Corporations
D. Attribution from Partnerships
E. Attribution from Estates and Trusts
F. Options to acquire outstanding interest in an organization.

Closing

For purposes of all compliance issues associated with pension plans, ***all employees of all businesses which are members of a controlled group of businesses are treated as employees of a single employer.***

The following is a list of some of the various areas of qualified plan operations in which controlled groups members are treated as one employer.

A. Nondiscrimination Testing (IRC Sec. 401(a)(4))*
B. Minimum Coverage Testing (IRC Sec. 410(b))*
C. Minimum Vesting Requirements (IRS Sec. 411)
D. Annual Additions Testing (IRC Sec. 415)
E. Top-Heavy Rules (IRC Sec. 416)
F. Compensation Cap (IRC Sec. 401(a)(17))
G. Plan loans (IRC Sec. 72(p)(2))
H. Hardship Withdrawals
I. Determining Service
J. Triggering Events

*If members of the controlled group can pass 410(b) separately, including the excluded members of the controlled group within the test they can perform ADP/ACP testing separately.

Affiliated Service Groups

I. Overview

II. An Affiliated Service Group designation refers to two or more organizations that have a service relationship and, in some cases, an ownership relationship. Affiliated Service Group is defined in Internal Revenue Code(IRC) 414(m).

II. Detail

A. A group consisting of a **service** organization (hereinafter referred to as the "first organization." The definition of a service organization for this purpose means an organization the principal business of which is the performance of services) and one or more of the following:

1. Any **service** organization which –

    a) Is a shareholder or partner in the first organization, and
    b) Regularly performs services for the first organization or is regularly associated with the first organization in performing services for third persons, or

2. Any other organization if –

    a) A significant portion of the business of such organization is the performance of services (for the first organization, for organizations described in subparagraph (A), or for both) of a type historically performed in such service field by employees, and

    b) 10 percent or more of the interests in such organization is held by persons who are highly compensated employees (within the meaning of section 414(q) of the first organization or an organization described in subparagraph (A)).

B. A group of companies may also be considered an Affiliated Service Group if the group consists of an organization of which the principal function is to provide, on a regular and continuing basis, management functions for another organization.

III. Closing

All employees of employers belonging to an Affiliated Service Groups are treated as a single employer for qualified retirement plan purposes. A qualified retirement plan established by any member of an affiliated service group must cover all the eligible employees of the employers in the affiliated service group, unless minimum participation and minimum coverage tests can be passed when they are excluded.

Due to the complexities in determining whether an Affiliated Service Group exist Ascensus would recommend the employers collaborate with their CPA and/or ERISA advisor for this determination.

Plan comparative analysis

ABC, Inc.

Name	Age	Income	Traditional	Integrated	Age Weighted	New Comp
Owner 1	54	$305,000	$61,000	$61,000	$61,000	$61,000
Owner 2	36	$305,000	$61,000	$61,000	$14,047	$61,000
HC TOTAL		**$610,000**	**$122,000**	**$122,000**	**$75,047**	**$122,000**
Employee 1	59	$30,000	$6,000	$5,114	$9,022	$5,114
Employee 2	52	$30,000	$6,000	$5,114	$5,097	$5,114
Employee 3	43	$30,000	$6,000	$5,114	$1,174	$5,114
Employee 4	38	$30,000	$6,000	$5,114	$519	$5,114
Non HC total		**$120,000**	**$24,000**	**$20,456**	**$15,812**	**$20,456**
TOTAL		**$730,000**	**$146,000**	**$142,456**	**$90,859**	**$142,456**
HC%		**83.6%**	**83.6%**	**85.6%**	**82.6%**	**85.6%**
Non HC%		**16.4%**	**16.4%**	**14.4%**	**17.4%**	**14.4%**

Safe harbor 401(k) plan (3% Non-elective) with New Comp

ABC, Inc.

Name	Income	Deferral$	EE%	NEC$	ER%	Catchup	NCPS$	NCPS%	Total$	Total%	415 Limit
Owner 1	$305,000	$20,500	6.72%	$9,150	3%	$6,500	$31,350	10.28%	$67,500	22.24%	$61,000
Owner 2	$305,000	$20,500	6.72%	$9,150	3%	$0	$31,350	10.28%	$61,000	20.00%	$61,000
HC TOTAL	**$610,000**	**$41,000**		**$18,300**		**$6,500**	**$62,700**		**$128,500**		
Employee 1	$30,000	$0	0%	$900	3%	$0	$428	1.43%	$1,316	4.43%	$30,000
Employee 2	$30,000	$0	0%	$900	3%	$0	$428	1.43%	$1,316	4.43%	$30,000
Employee 3	$30,000	$0	0%	$900	3%	$0	$428	1.43%	$1,316	4.43%	$30,000
Employee 4	$30,000	$0	0%	$900	3%	$0	$428	1.43%	$1,316	4.43%	$30,000
Non HC total	**$120,000**	**$0**		**$3,600**		**$0**	**$1,712**		**$5,312**		
TOTAL	**$730,000**	**$41,000**		**$21,900**		**$6,500**	**$64,412**		**$133,812**		
HC%	**83.6%**	**100%**		**83.6%**		**100%**	**97.3%**		**96%**		
Average	**$305,000**	**$20,500**		**$8,700**		**$3,250**	**$29,800**		**$61,250**		
Non HC%	**17.4%**	**0%**		**17.4%**		**0%**	**2.7%**		**4%**		
Average	**$30,000**	**$0**		**$900**		**$0**	**$428**		**$1,316**		

Safe harbor 401(k) plan (matching) with integrated plan

ABC, Inc.

Name	Income	Deferral$	EE%	Match$	ER%	Catchup	INTPS$	INTPS%	Total$	Total%	415 Limit
Owner 1	$305,000	$20,500	6.72%	$12,200	4.00%	$6,500	$28,300	9.28%	$67,500	22.13%	$61,000
Owner 2	$305,000	$20,500	6.72%	$12,200	4.00%	$0	$28,300	9.28%	$61,000	20.00%	$61,000
HC TOTAL	**$610,000**	**$41,000**		**$24,400**		**$6,500**	**$56,600**		**$128,500**		
Employee 1	$30,000	$1,500	5%	$1,200	4.00%	$0	$1,898	6.33%	$4,598	15.33%	$30,000
Employee 2	$30,000	$1,500	5%	$1,200	4.00%	$0	$1,898	6.33%	$4,598	15.33%	$30,000
Employee 3	$30,000	$1,500	5%	$1,200	4.00%	$0	$1,898	6.33%	$4,598	15.33%	$30,000
Employee 4	$30,000	$1,500	5%	$1,200	4.00%	$0	$1,898	6.33%	$4,598	15.33%	$30,000
Non HC total	**$120,000**	**$6,000**		**$4,800**		**$0**	**$7,591**		**$18,392**		
TOTAL	**$730,000**	**$47,000**		**$29,200**		**$6,500**	**$64,191**		**$146,892**		
HC%	**83.6%**	**87.2%**		**83.6%**		**100%**	**88.2%**		**87.5%**		
Average	**$305,000**	**$12,500**		**$12,200**		**$3,250**	**$28,300**		**$64,250**		
Non HC%	**16.4%**	**12.8%**		**16.4%**		**0%**	**11.8%**		**12.5%**		
Average	**$30,000**	**$1,500**		**$1,200**		**$0**	**$1,898**		**$4,598**		

The Basics: Defined Benefit vs. Defined Contribution

Types of qualified plans

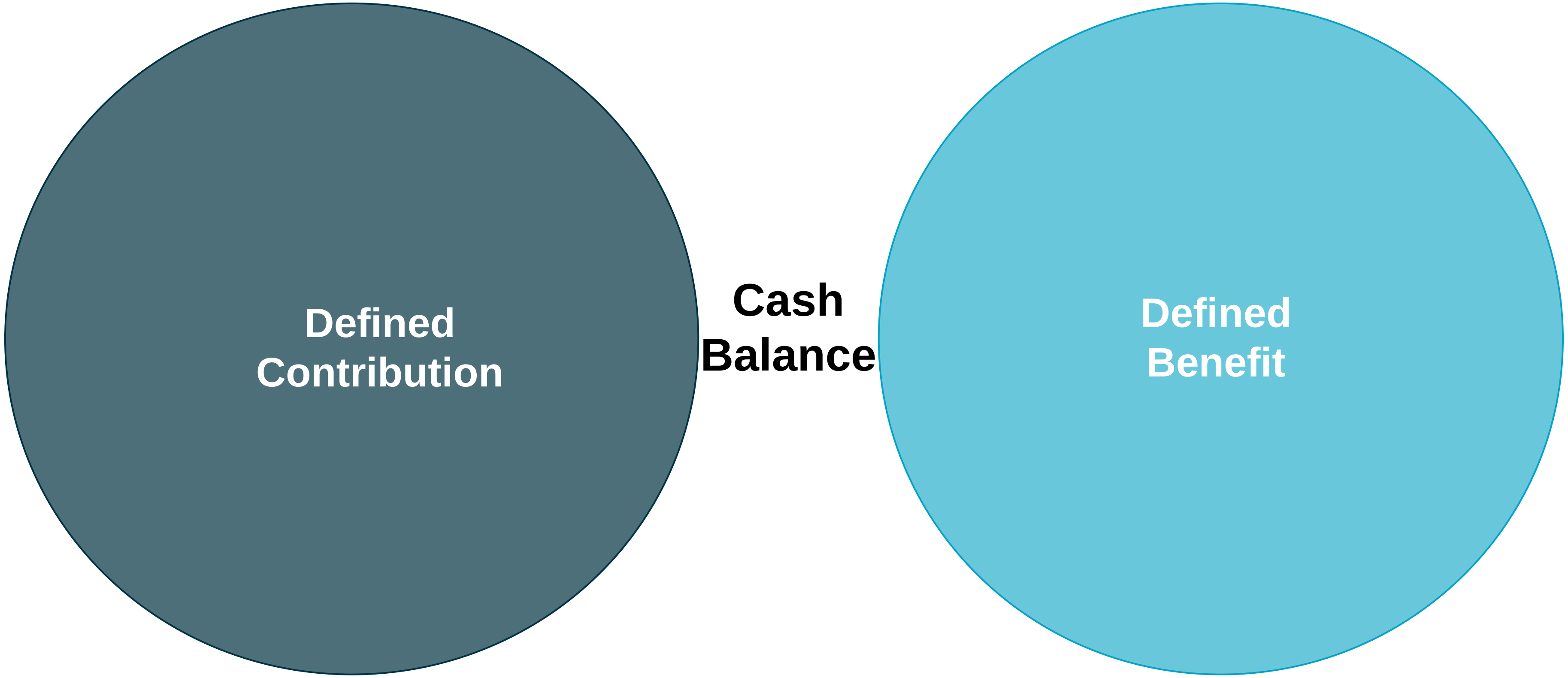
Defined Contribution

- Profit sharing, money purchase, 401(k)
- Individual limit: Lesser of 100% of compensation or $61,000 (as of 2022)
- Corporate deductible limit: 25% of eligible compensation
- Individual account balances

Defined Benefit

- Traditional defined benefit and cash balance defined benefit
- Benefit at normal retirement age (NRA): Limited to lesser of 100% of compensation or $245,000/year (as of 2022)
- Corporate deductible limit: Amount necessary to fund the defined benefit

Qualified Plans

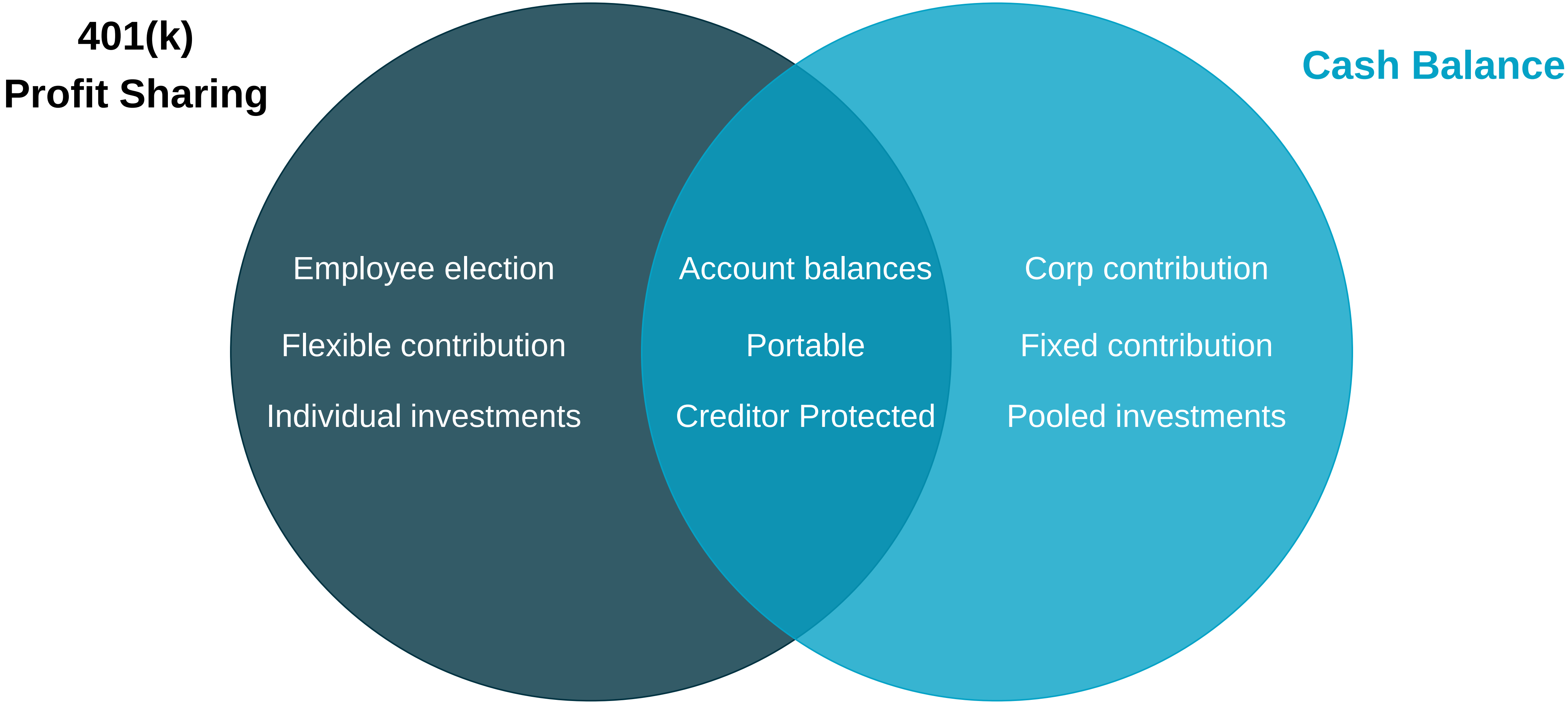


401(k)
Profit Sharing

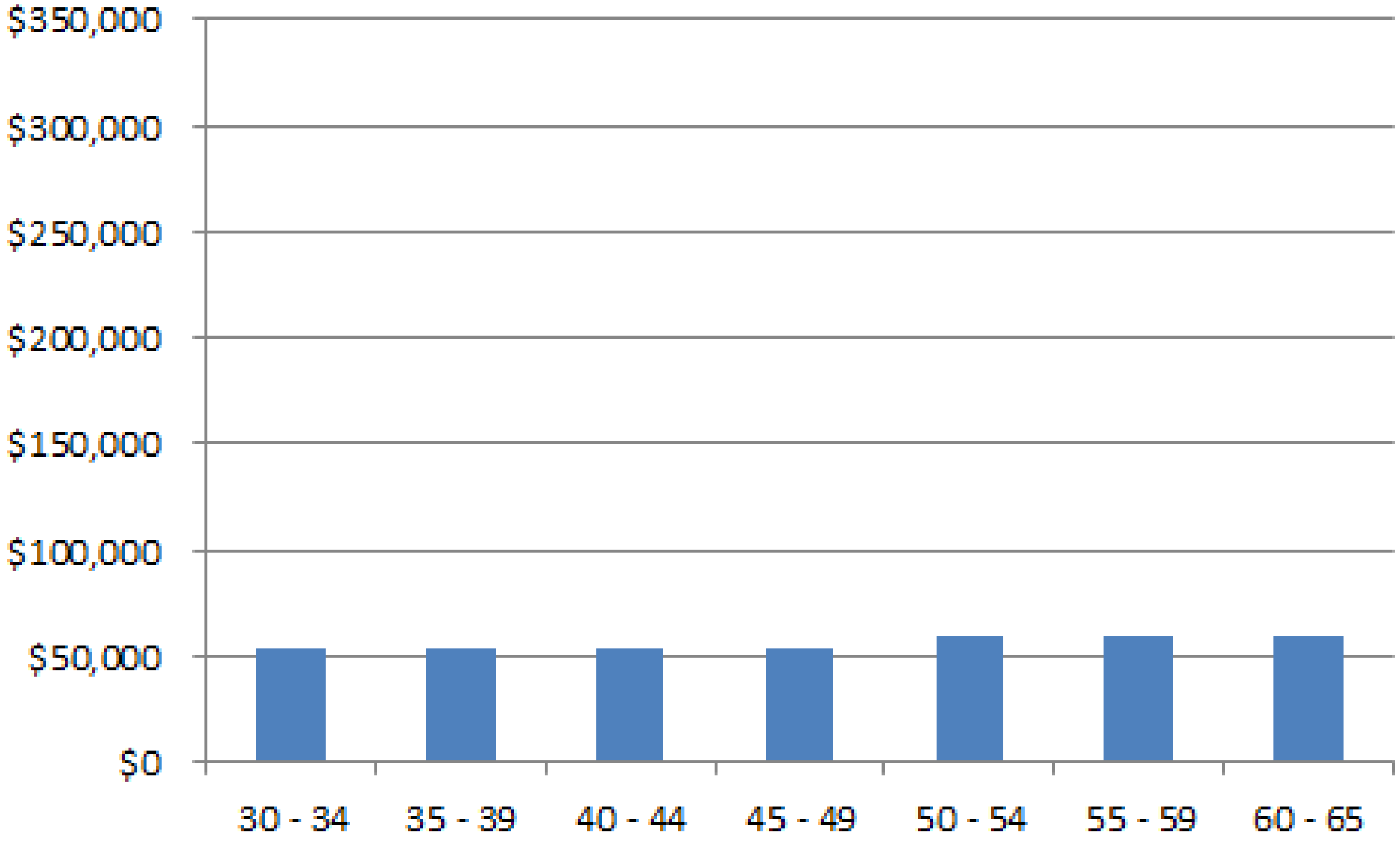
Hybrid

Traditional

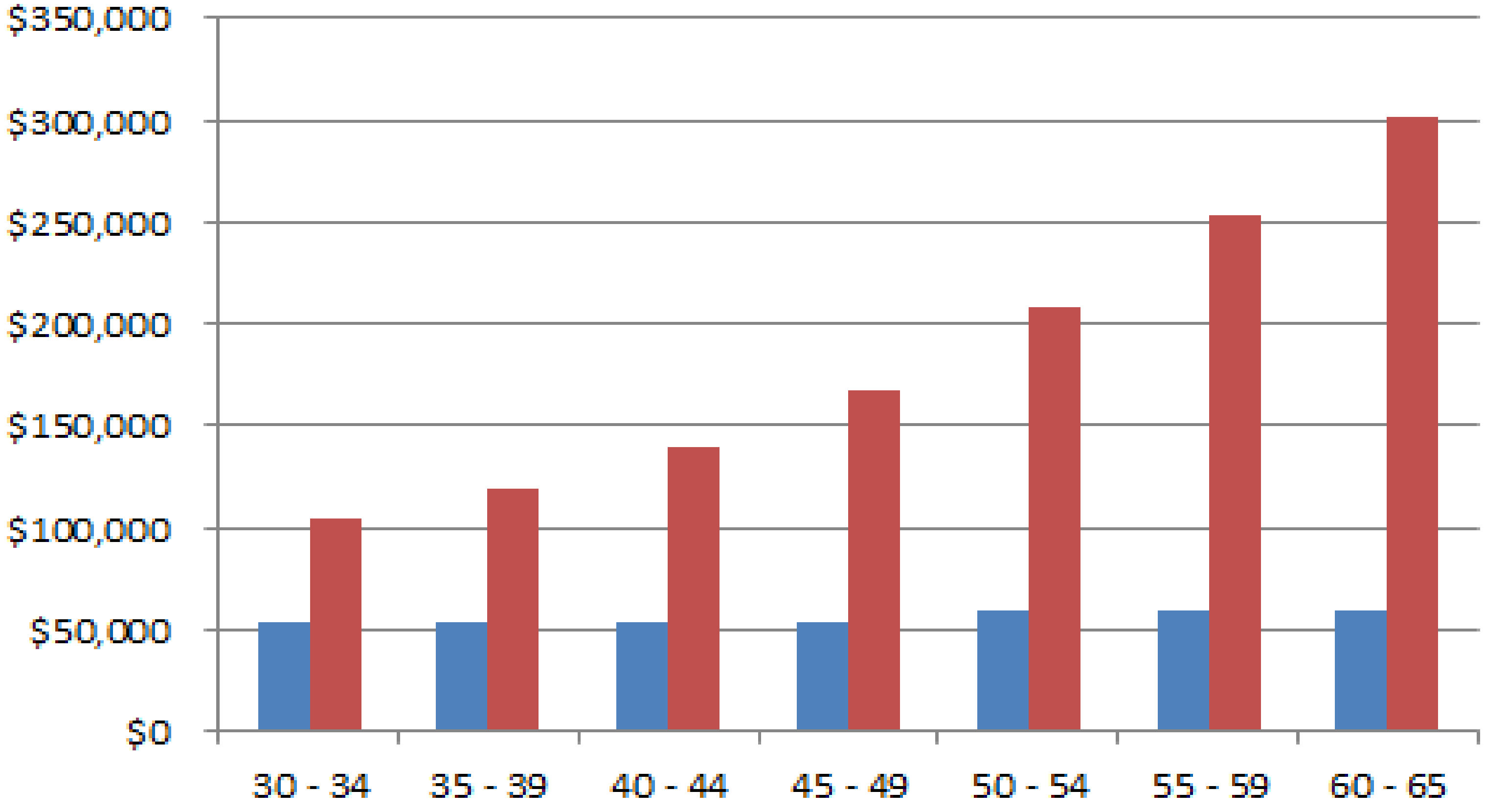
Similarities & Differences



401(k) Profit Sharing Plan Max



401(k) Profit Sharing + Cash Balance



Comparison of maximum annual contributions

	DC	DB
Employee ages 60-65	$67,500	$301,000
Employee ages 55-59	$67,500	$246,000
Employee ages 50-54	$67,500	$191,000
Employee ages 45-49	$61,000	$149,000
Employee ages 40-44	$61,000	$116,000

Anticipates 401(k) plan catch-up contributions.

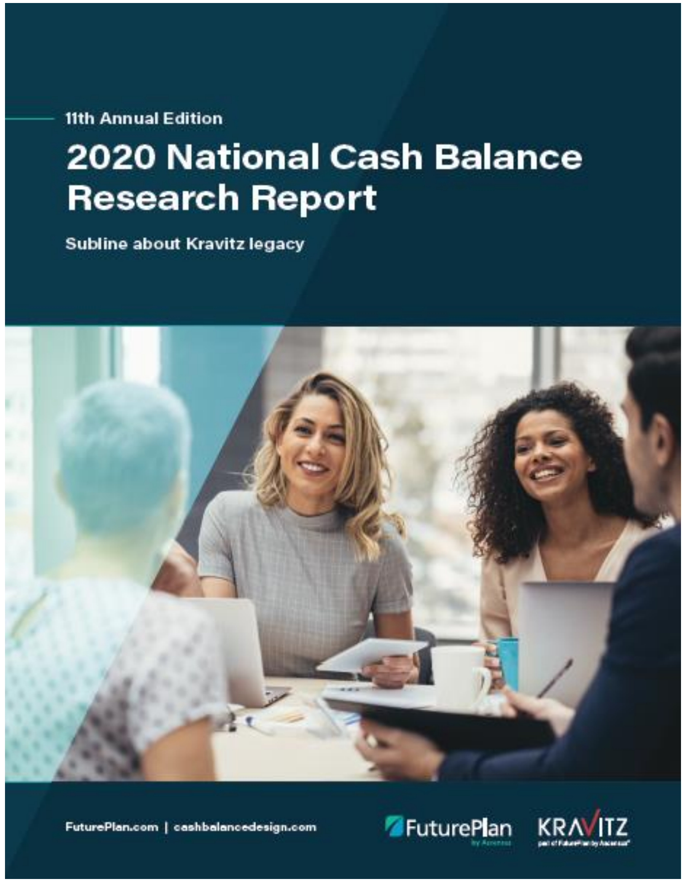
Please note: All above defined benefit numbers are approximations. Actual results will vary based on actual census data, plan assumptions and plan experience.

Opportunities & Challenges

The Cash Balance Opportunity

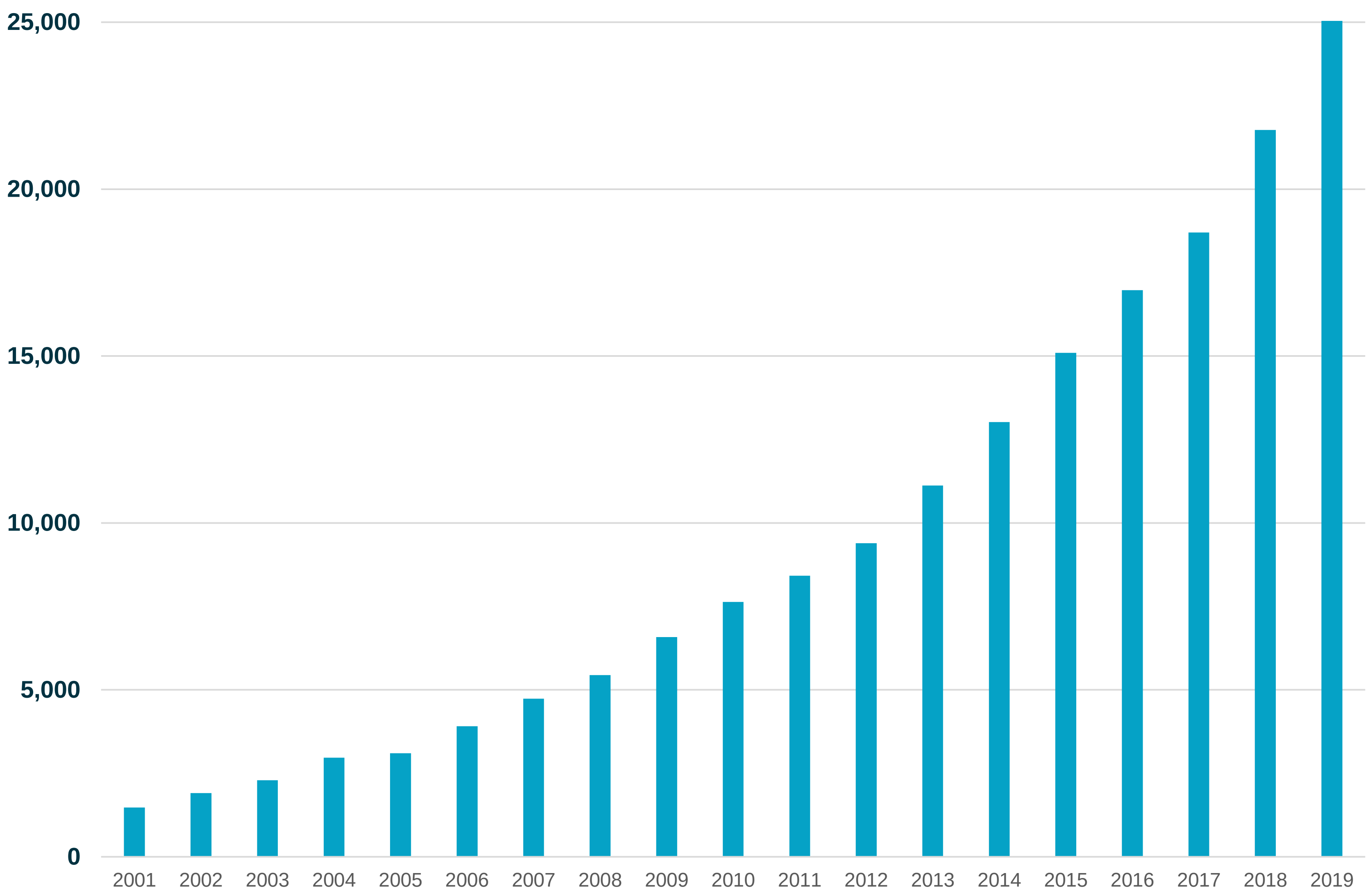
The Data Tells the Story

- Cash Balance plans continue rising as the fastest growing sector of the retirement plan market
- The number of new Cash Balance plans increased 17% Cash Balance plans make up over 42% of all defined benefits plans Cash Balance plan assets top $1 trillion
- IRS regulations allowing broader Cash Balance investment options have accelerated plan growth



Source: 2020 FuturePlan/Kravitz Cash Balance Research Report (2018 data shown)

Cash Balance Growth



SOURCE: 2020 FuturePlan Cash Balance Research Report

*Projection based on current growth rates and industry data.

Challenges High-Income Business Owners Face

- High tax burdens are associated with high incomes
- May reach the annual contribution limits of a 401(k) plan
- May want to catch-up on retirement savings using both a 401(k) plan and a CB/DB plan (It's possible for a 47-year-old business owner to contribute $210,000 to his retirement, or for a 57-year-old to contribute $313,500 to her retirement annually)
- Want the standard tax deductions afforded to others but high salaries may phase them out

*Using a 401(k) with a cash balance plan.

What exactly is a Cash Balance Plan?

The Best of Both Worlds

- A Cash Balance plan is a type of Defined Benefit Plan that combines the high contribution limits of a defined benefit plan with the flexibility ad portability of a 401(k) plan
- Participants can amass a lump sum of up to $3.15 million at age 62 while employed.
- A Cash Balance plan can show the benefit as a lump-sum as is done in a traditional DB plan.
- Participants can choose to have the lump sum rolled over to an IRA upon termination of employment or retirement age designated by the plan document, typically 62, or as early as age 59 ½ (401(k) plan must have similar provision).

How Long Have They Been Around?

1985
First CB plan:
Bank of America

2006
Pension Protection
(PPA) affirms CB
legality

2010
DOL issues new
Cash Balance
regulations

2014
IRS finalizes
regulations

Contribution Limits

401(k) Profit Sharing & Cash Balance Plans					
Age	401(k) only	401(k) with Profit Sharing	Cash Balance	Total	Tax Savings*
60-65	$27,000	$67,500	$301,000	**$368,500**	**$165,825**
55-59	$27,000	$67,500	$246,000	**$313,500**	**$141,075**
50-54	$27,000	$67,500	$191,000	**$258,500**	**$116,325**
45-49	$20,500	$61,000	$149,000	**$210,000**	**$94,500**
40-44	$20,500	$61,000	$116,000	**$177,000**	**$79,650**
35-39	$20,500	$61,000	$91,000	**$152,000**	**$68,400**
30-34	$20,500	$61,000	$71,000	**$132,000**	**$59,400**

$3,150,000 Lifetime Limit

Assuming 45% tax bracket. Taxes are deferred.

WHAT EXACTLY IS A CASH BALANCE PLAN?

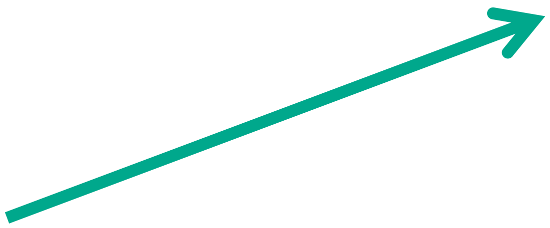
How Do Cash Balance Plans Work?

401(k)

Grow through participant contributions and earnings. Growth can be volatile.

Cash Balance

Grow through employer contributions and an interest crediting rate (4% - 5%). Growth should be steady.



Traditional Investment Dynamics

Earnings

Overfunded

eventually reduce contribution

Earnings

Underfunded

eventually need to catch up

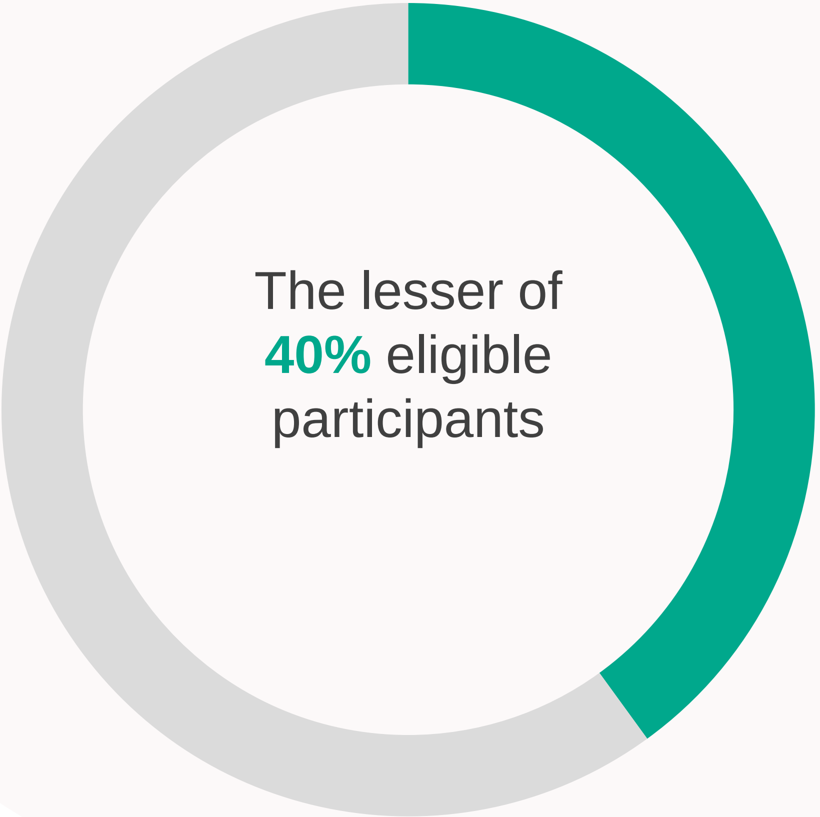
Smoothing Period

Interest Crediting Rate (ICR) Options

1. 30-year Treasury Rate
2. Fixed Rate: 1% to 6%
3. Actual Rate of Return
4. Actual Rate of Return with Investment Options

FEATURES

Coverage Requirements



The lesser of **40%** eligible participants

OR

50 participants total

1. Portability

Account balance is portable. It’s your money.

2. Flexibility

Flexible set-up and ongoing.

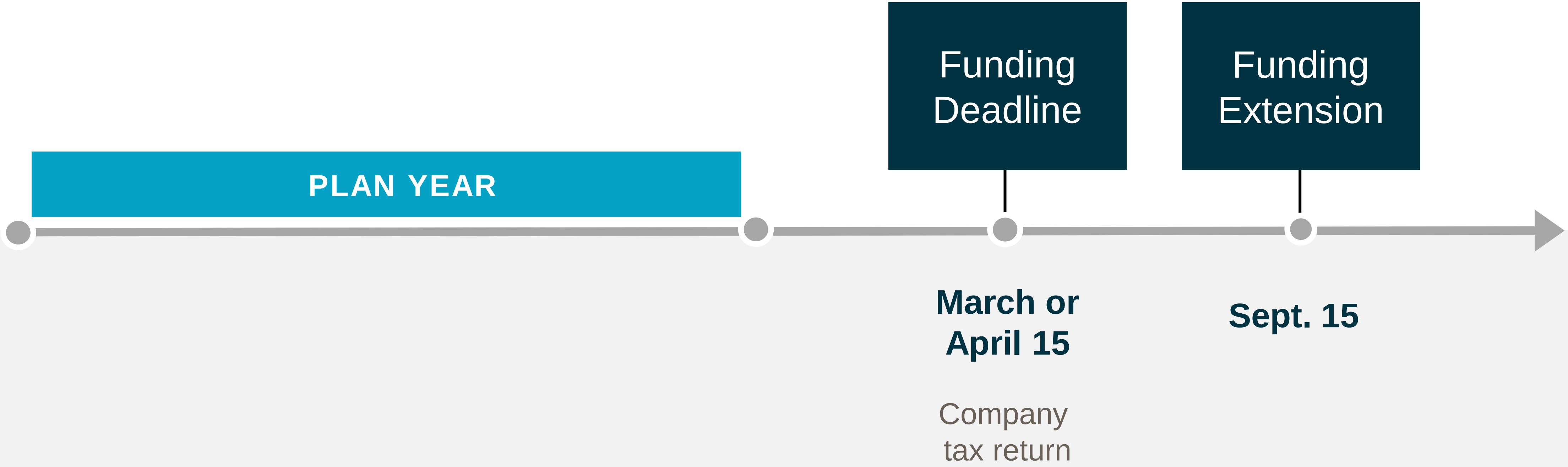
Feature

Contribution amounts can change but use caution.

- Reduce 401(k)/PS
- Amend
- Freeze
- Terminate

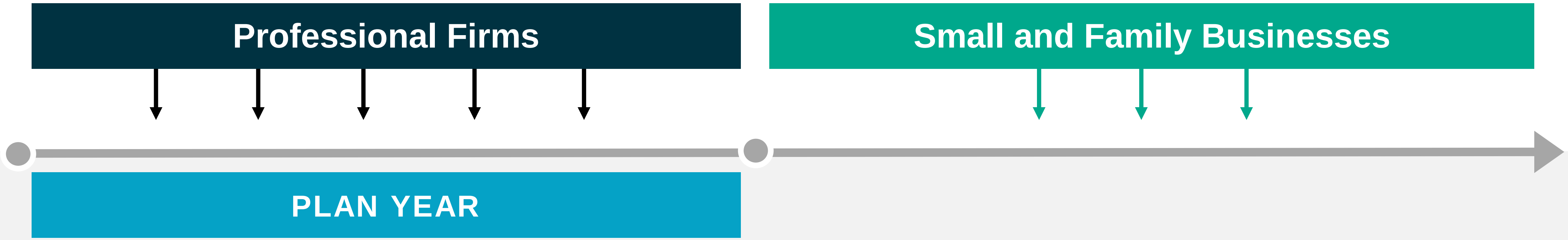
Deadline for Funding

When does the money need to be deposited?



Timing of Deposits

When is the money **typically** deposited?



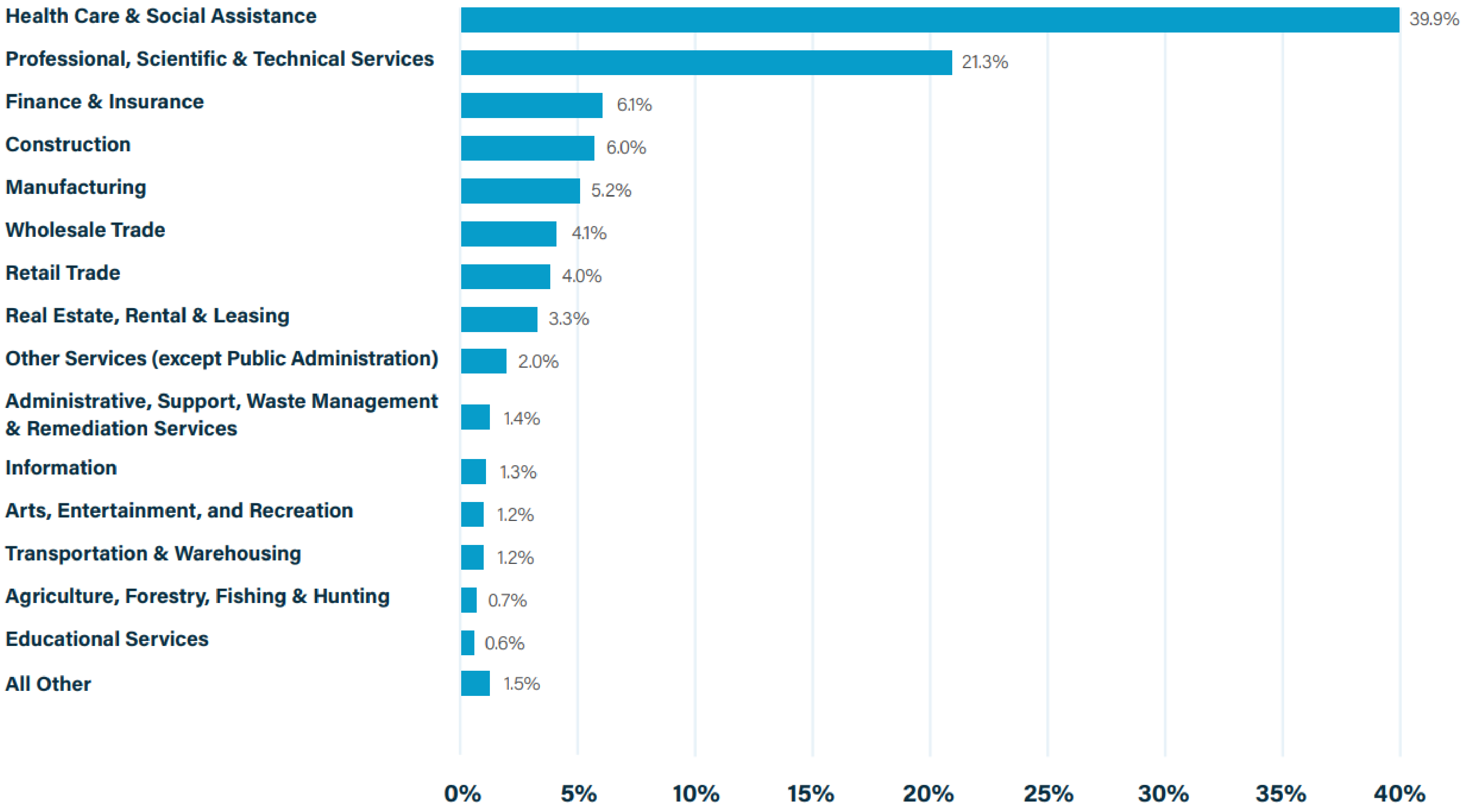
Feature

Withdrawal Options

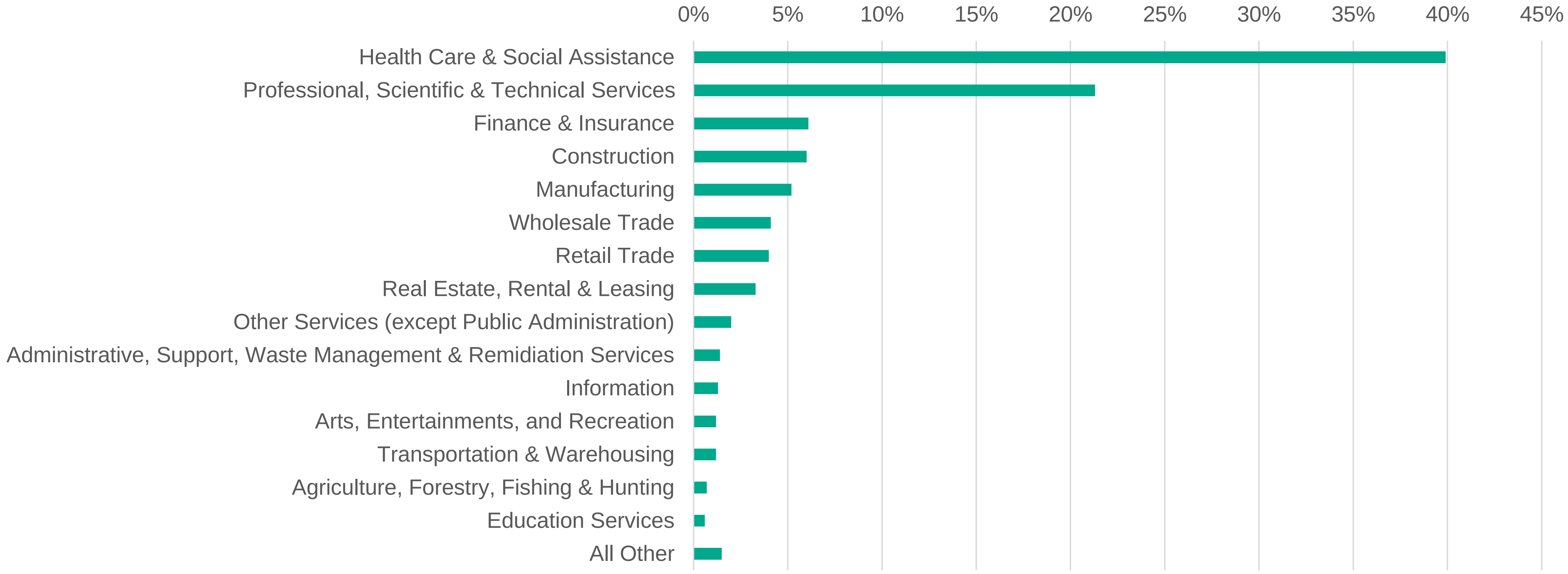
- Age 62
- Termination of employment
- Retirement
- Death
- Disability
- Pan Termination

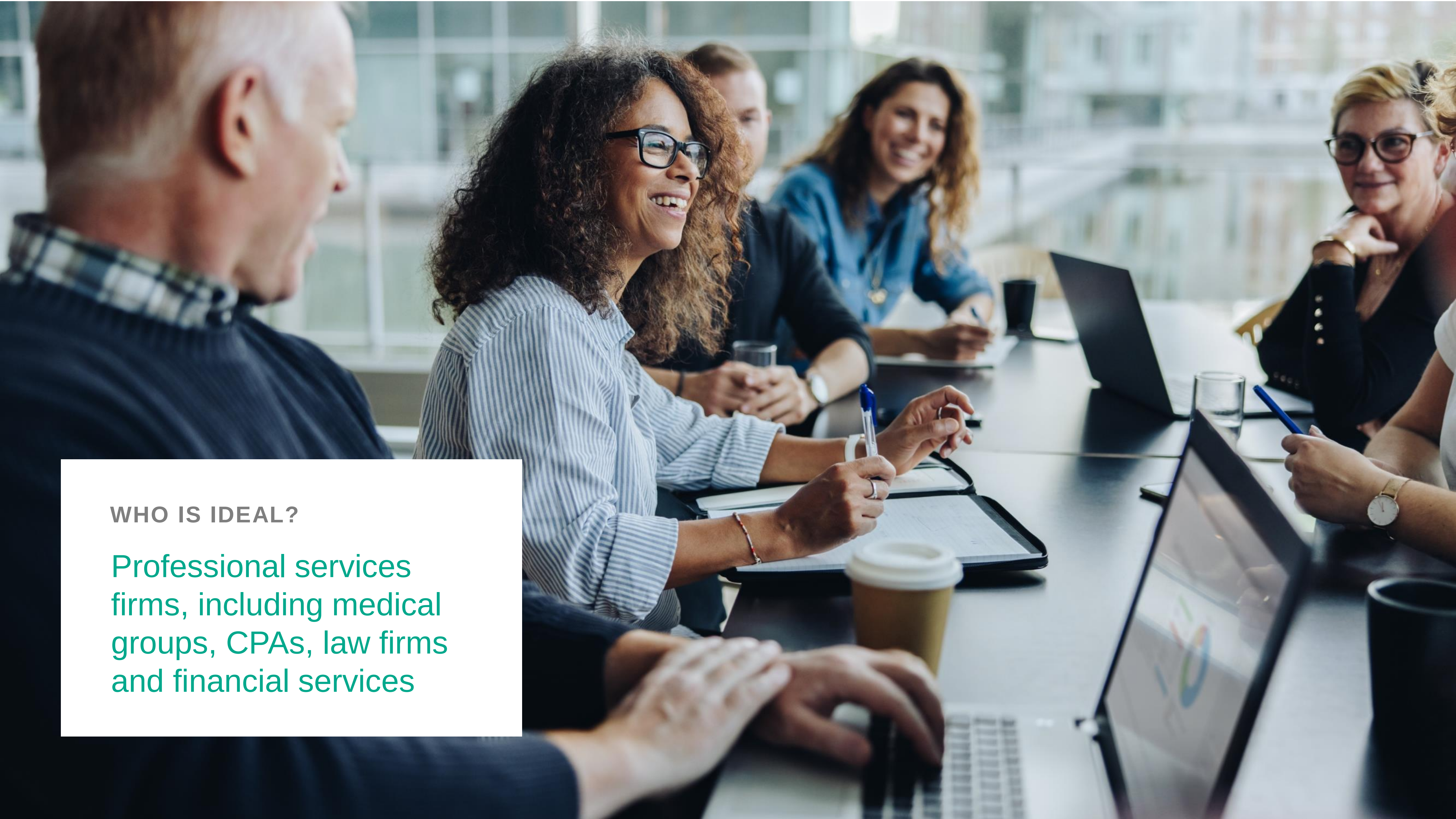
Who is Ideal?

CB Plans by Business Type



CB Plans by Business Type





WHO IS IDEAL?

Professional services firms, including medical groups, CPAs, law firms and financial services

WHO IS IDEAL?

Doctors Offices and Medical Professionals

WHO IS IDEAL?

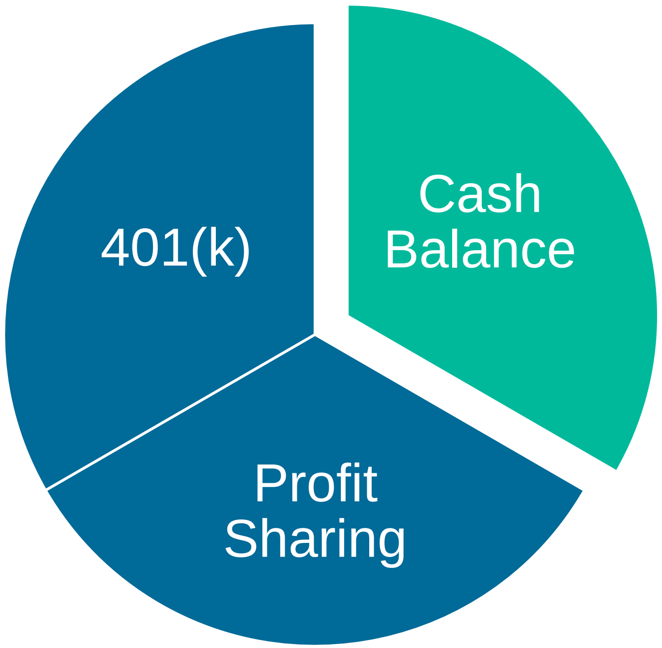
Law Firms

Who is Ideal?

Businesses with existing New Comparability Plan

Profitable businesses with an existing
New Comparability 401(k) Plan
and want to do more…

New Comparability 401(k) Plans allow for tiered staff contributions as do Cash Balance Plans.



Case Studies

CASE STUDY

Meet Tammy and James

Purveyors of gourmet tea
The Republic of Tea

CASE STUDY

Let’s look at the following scenarios when Owners want to contribute even more to their Cash Balance Plan.

CASE STUDY

Typical Small Business

2 Owners		
James Marshall	61	$305,000
Tammy Marshall	56	$65,000
Subtotals		$370,000

4 Staff		
Brandon Byrd	41	$51,000
Sarah Droste	35	$41,000
Ryan Osler	28	$34,000
Jimmy Bond	44	$21,000

CASE STUDY

Common Plan – Maximize Owner

Name	Age	Annual Salary	401(k)	Profit Sharing	Total Contribution
2 Owners					
James Marshall	61	$305,000	$27,000	$40,500	$67,500
Tammy Marshall	56	$65,000	$27,000	$9,750	$36,750
Subtotals		**$370,000**	**$54,000**	**$50,250**	**$104,250**
4 Staff				5% of pay	
Brandon Byrd	41	$51,000		$2,550	$2,550
Sarah Droste	35	$41,000		$2,050	$2,050
Ryan Osler	28	$34,000		$1,700	$1,700
Jimmy Bond	44	$21,000		$1,050	$1,050

Add Cash Balance

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance
2 Owners					
James Marshall	61	$305,000	$27,000	$40,500	$0 to $50,000
Tammy Marshall	56	$65,000	$27,000	$9,750	$0 to $13,000
Subtotals		**$370,000**	**$54,000**	**$50,250**	**$63,000**
4 Staff				5% of pay	
Brandon Byrd	41	$51,000		$2,550	$700
Sarah Droste	35	$41,000		$2,050	$700
Ryan Osler	28	$34,000		$1,700	$700
Jimmy Bond	44	$21,000		$1,050	$700

CASE STUDY

All Together

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contribution
2 Owners						
James Marshall	61	$305,000	$27,000	$40,500	$0 to $50,000	$117,500
Tammy Marshall	56	$65,000	$27,000	$9,750	$0 to $13,000	$50,050
Subtotals		**$370,000**	**$54,000**	**$50,250**	**$63,000**	**$167,550**
4 Staff				5% of pay		
Brandon Byrd	41	$51,000		$2,550	$700	$3,250
Sarah Droste	35	$41,000		$2,050	$700	$2,750
Ryan Osler	28	$34,000		$1,700	$700	$2,400
Jimmy Bond	44	$21,000		$1,050	$700	$1,750
Subtotals		**$147,000**		**$7,350**	**$2,800**	**$10,150**
Grand Totals		**$517,000**	**$54,000**	**$57,600**	**$66,100**	**$177,700**
Percentage of Contribution to Owners					96.9%	

CASE STUDY

Maybe This is More on Target

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contribution
2 Owners						
James Marshall	61	$305,000	$27,000	$40,500	$0 to $298,789	$366,289
Tammy Marshall	56	$65,000	$27,000	$3,900	$0 to $56,000	$86,900
Subtotals		**$370,000**	**$54,000**	**$44,400**	**$354,789**	**$453,189**
4 Staff				7.5% of pay		
Brandon Byrd	41	$51,000		$3,825	$700	$4,525
Sarah Droste	35	$41,000		$3,075	$700	$3,775
Ryan Osler	28	$34,000		$2,550	$700	$3,250
Jimmy Bond	44	$21,000		$1,575	$700	$2,275

Contributions are employer driven. Any contributions made by participants may be made through their 401(k) plan.

CASE STUDY

All Together

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contribution	Tax Savings*
2 Owners							
James Marshall	61	$305,000	$27,000	$40,500	$298,789	$366,289	$164,830
Tammy Marshall	56	$65,000	$27,000	$3,900	$0 to $56,000	$86,900	$39,105
Subtotals		**$370,000**	**$54,000**	**$44,400**	**$354,789**	**$453,189**	**$203,935**
4 Staff				7.5% of pay			
Brandon Byrd	41	$51,000		$3,825	$700	$4,525	
Sarah Droste	35	$41,000		$3,075	$700	$3,775	
Ryan Osler	28	$34,000		$2,550	$700	$3,250	
Jimmy Bond	44	$21,000		$1,575	$700	$2,275	
Subtotals		**$147,000**		**$11,025**	**$2,800**	**$13,825**	**$6,221**
Grand Totals		**$517,000**	**$54,000**	**$55,425**	**$357,589**	**$467,014**	**$210,156**
Percentage of Contribution to Owners					97%		

*Tax Savings assume a 45% tax bracket, varies by state. Taxes are deferred. Maximum 401(k) with Profit Sharing amounts may be reduced if compensation is lower than the IRS maximum compensation limit of $305,000 and other deduction limits may apply. Maximum cash balance amounts assume a 3-year average compensation of at least $245,000. Lower 3-year average compensation may reduce the amounts shown.

Sample Dental/Doctor Group Balance Pension Plan

Cash Balance Plan Illustration 2022

Name	Age	Annual Salary	401(k)	Safe Harbor	Profit Sharing	Cash Balance	Total Contribution	Tax Savings*
2 Owners								
Spouse	56	$ 305,000	$ 27,000		$ 18,606	$ 237,643	$ 283,249	**$ 127,462**
Owner	52	$ 305,000	$ 27,000		$ 18,606	$ 193,066	$ 238,672	**$ 107,402**
Subtotals		**$ 610,000**	**$ 54,000**	**$ 0**	**$ 37,212**	**$ 430,709**	**$ 521,921**	**$ 234,864**
1 Highly Compensated Employee					**3% of pay**			
Employee 1	50	$ 140,330			$ 4,210	$ 0	$ 4,210	
6 Staff				**3% of pay**	**4.5% of pay**			
Employee 2	63	$ 58,540		$ 1,756	$ 2,634	$ 0	$ 4,390	
Employee 3	53	$ 46,280		$ 1,388	$ 2,083	$ 0	$ 3,471	
Employee 6	31	$ 45,000		$ 1,350	$ 2,025	$ 0	$ 3,375	
Employee 5	29	$ 32,141		$ 964	$ 1,446	$ 0	$ 2,411	
Employee 4	28	$ 30,598		$ 918	$ 1,377	$ 621	$ 2,916	
Employee 7	24	$ 27,320		$ 820	$ 1,229	$ 474	$ 2,523	
Subtotals		**$ 380,209**	**$ 0**	**$ 7,196**	**$ 15,004**	**$ 1,095**	**$ 23,296**	**$ 10,483**
Grand Totals		**$ 990,209**	**$ 54,000**	**$ 7,196**	**$ 52,216**	**$ 431,804**	**$ 545,217**	**$ 245,347**

Percent of Contribution to Owners **95.7%**

Qualified Business Income Deduction:
Who does not qualify?

Who Does Not Qualify for QBI 20% Deduction?

Business owners of pass-through entities that are “specified service businesses” **and** have taxable income above $220,050 single / $440,100 married filing jointly for 2022.

*Represents over 80% of the plan sponsors of Cash Balance plans at FuturePlan**

NOTE: Financial advisors cannot provide tax advice and should work with CPAs and plan sponsors with respect to taxes and potential tax savings.
*Per internal data.

Who qualifies for the 20% deduction?

- Business owners of pass-through entities in any type of profession, who have incomes below a specified threshold ($220,050 single filer/$440,100 married filing jointly for 2022).
- Business owners of pass-through entities that are not specified services firms but do have incomes above the threshold.
  - ***However, their deduction is subject to limitations***.

Understanding Tax Deductions

Above The Line Deductions

Generally most desirable type of deduction - Reduces AGI

- Cash Balance and other Qualified Retirement Plan Contributions

Below the Line Deductions

Many limitations - Subject to phaseouts.*

- Charitable Contributions
- State Tax
- Property Taxes
- Mortgage Interest
- **20% New Deduction***

**Subject to phase outs based on income > $170,050 (Single) or >$340,100 (Married filing jointly)*

NOTE: Financial advisors cannot provide tax advice and should work with CPAs and plan sponsors with respect to taxes and potential tax savings.

Qualified Retirement Plan & 20% Deduction

S Corporation (financial services) – married shareholder

W2 compensation	**$200,000**
QBI	**$300,000**
Taxable income	**$500,000** (exceeds $440,100 limit)
20% Deduction	**$0**

Cash Balance contribution	**$185,000**
Taxable income	**$315,000** ($500,000 - $185,000)
QBI	**$115,000** ($300,000 - $185,000)
20% Deduction increases to	**$23,000** (20% of $115,000)
Net taxable income	***$292,000*** *($315,000 - $23,000)*

$185,000 contribution creates $208,000 reduction in taxable income

Subject to phase outs based on income > $170,050 (Single) or >$340,100 (Married filing jointly)

IMPACT OF TAX REFORM

Should James and Tammy still contribute to the plans?

The Republic of Tea

Total Taxable Income	$650,000
Threshold for full 20% Deduction	$340,100
Threshold at which deduction is eliminated	$440,100

The information contained herein is provided only for the intended audience and not for use with or distribution to the general public. For illustrative purposes only. Please contact your tax professional for more details.

Impact of Tax Reform

By contributing $335,000 or more to the retirement plan, his effective federal tax rate could drop to 20.1%

Taxable income (after retirement contributions)	**$315,000** = ($650,000 – $335,000)
20% pass-through deduction for $115,000*	**$23,000** = (20% * $115,000)*
Final taxable income	**$292,000** = ($315,000 – $23,000)
Tax liability from new tax brackets	**$58,659** = ($28,179+ ($127,000 * 24%))
Effective tax rate (Tax liability / Taxable income)	**20.1%** = ($58,659 / $292,000)

****We are assuming $200,000 of income is W2 wages and $115,000 is Qualified Business Income (QBI).***

PROSPECTING TIP #3

5 Main Benefits to Convey to Business Owners

1. Potential significant tax reductions
2. Asset protection from creditor or bankruptcy
3. Accelerated retirement savings
4. Assets are portable and able to be rolled over
5. Depending on plan’s design, owners can invest in different investment portfolios

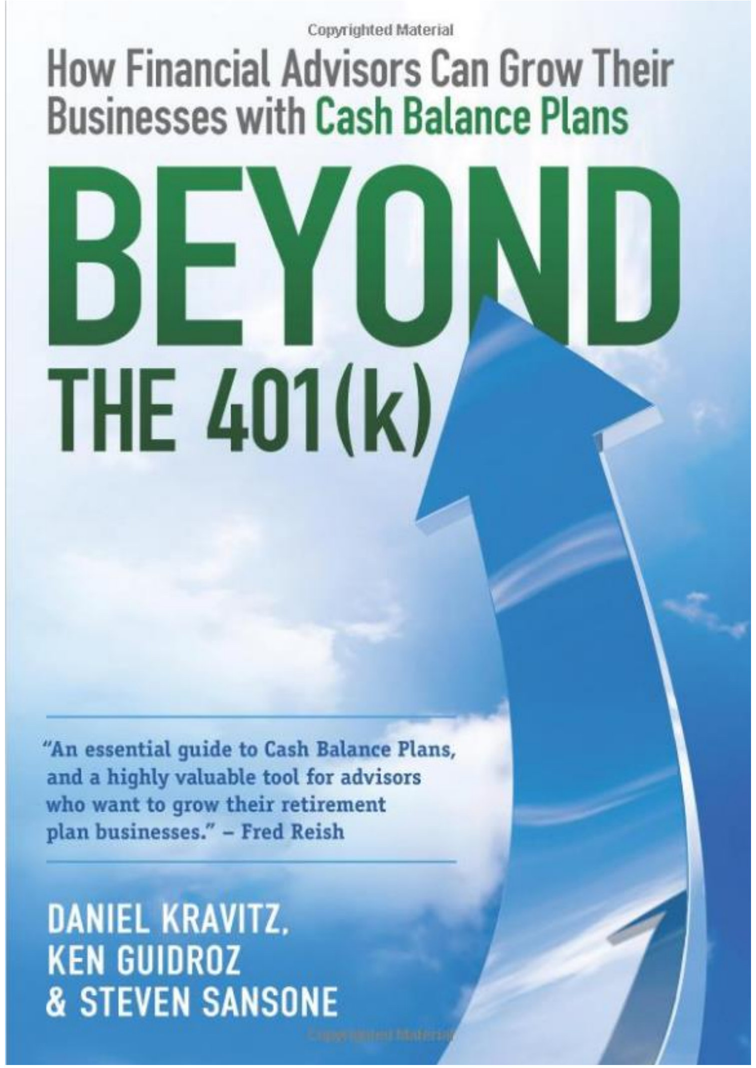
Next Steps

Reach out to:

1. Business owners
2. Partners at law firms
3. Shareholder Doctors
4. Accounting Firms

Get additional education:

1. Cash Balance Coach Certification Program for Financial Professionals
2. *Beyond the 401(k)* Book
3. FuturePlan.com



Questions?

THANK YOU

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