THE HYBRID SOLUTION: CASH BALANCE PLANS

we don't do ordinary. **we defend the egg.**

Cash balance plans have been around for many years, but were often problematic and controversial because of age discrimination stipulations and issues. Not until the passage of the Pension Protection Act of 2006 (PPA), could plan sponsors finally receive a green light to implement cash balance plans without fear. Now these plans are gaining popularity, especially among small to mid-size professional businesses.

A cash balance plan combines the best of both a defined contribution and a defined benefit plan. Although technically a defined benefit plan, a cash balance plan works differently because it provides guaranteed benefits for employees by alluding to a hypothetical account balance.

From an employer's standpoint, cash balance plans can be much more cost effective to fund than a traditional defined benefit plan since cash balance plans are less age dependent, which gives owners a greater percentage of the total retirement benefits.

Moreover, when a properly designed cash balance plan is combined with a 401(k) profit sharing plan, this advanced combination plan design — what Retirement Administration, Inc. calls an RAI Combo-K — creates the optimum small-business owner retirement savings vehicle with maximum tax reductions and savings potential.

CASH BALANCE PLANS: WHY ARE THEY SO POPULAR NOW?

Cash balance plans are prevalent among employers today because of the ease of communication and explanation to participants. From a participant's perspective, the vested share of the hypothetical account balance is what can be distributed upon retirement or separation from service.

Indeed, the participant receives a benefit statement at least every three years—and often annually—showing the value of the account. A second reason for the popularity is the ability to control the cost of benefits for non-owner employees, while increasing the benefit for the owner.

Designing a plan with different percentage of pay allocations to different employee groups is known as new comparability. New comparability provides meaningful benefits to non-owners, while maximizing benefits for the owners—so long as complex non-discrimination testing is satisfied.

Using the new comparability approach in a cash balance plan creates a plan that is both flexible in benefit cost and easy to communicate to employees.

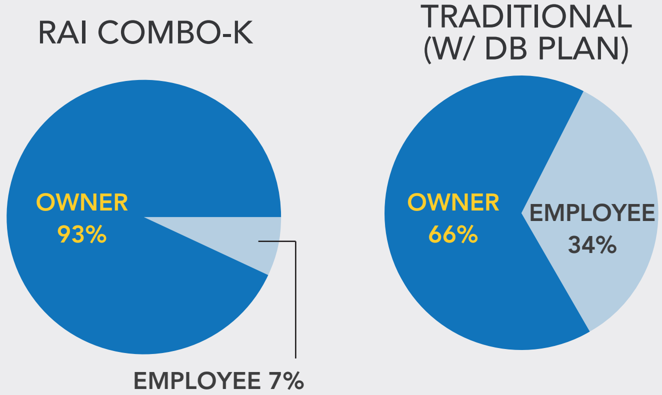
RAI COMBO-K: MAXIMIZING CASH BALANCE PLAN OWNER BENEFITS

Cash balance plans are particularly powerful when used with a 401(k) profit sharing plan to create an RAI Combo-K. The chart below shows an example of how a Combo-K compares with a traditional defined benefit and 401(k) profit sharing plan. Here the RAI Combo-K provides owners with the same total retirement benefit savings of $194,000, yet reduces the company-wide retirement benefit costs from $296,100 to $209,000. Moreover, the total dollars going toward the owner shifts from 66 percent with the traditional plan to 93 percent with the RAI Combo-K.

			RAI COMBO-K				TRADITIONAL PLAN			
WHO	AGE	SALARY	401(K) PROFIT SHARING	CASH BALANCE	TOTAL	% OF TOTAL	401(K) PROFIT SHARING	DEFINED BENEFIT	TOTAL	% OF TOTAL
Owner	50	$265,000	$59,000	$135,000	**$194,000**	93%	$59,000	$135,000	**$194,000**	66%
Employee 1	55	$60,000	$4,500	$0	$4,500	7%	$4,500	$49,000	$53,500	34%
Employee 2	45	$50,000	$3,750	$0	$3,750		$3,750	$23,000	$26,750	
Employee 3	35	$40,000	$3,000	$750	$3,750		$3,000	$11,400	$14,400	
Employee 4	25	$30,000	$2,250	$750	$3,000		$2,250	$5,200	$7,450	
Retirement Benefit Total		$445,000	$72,500	$136,500	**$209,000**		$72,500	$223,600	**$296,100**	

PERCENT OF BENEFIT FOR OWNER

An RAI Combo-K provides owners with same total benefit but at a lower overall cost



CASH BALANCE PLANS DEFINE THE BENEFIT ACCUMULATION

A cash balance plan works differently than a final average pay defined benefit plan because the benefit is the accumulation of a hypothetical account. A percent-of-pay allocation formula is specified in the plan document, instead of the type of benefit formula used in a defined benefit plan. The plan document also states the interest crediting rate.

A hypothetical account (aka: the "cash balance" account) is created for each participant, and is maintained on paper as a bookkeeping artifice. Each year, the hypothetical account receives the allocations as defined in the plan document, as well as the guaranteed interest credits. The current accumulation of the hypothetical account is then actuarially converted to an accrued benefit, payable at retirement age. PPA states that a cash balance plan participant's present value of accrued benefit is equal to the hypothetical account balance.

Separate from the hypothetical account bookkeeping are the actual plan assets. The hypothetical account is not related to actual plan assets and does not represent a participant's share of actual plan assets. It is merely a bookkeeping artifice that defines participants' accrued benefits. Because cash balance plans are defined benefit plans, employer contributions are based on an actuarial valuation and may not equal the sum of participants' hypothetical account additions. It is important to remember that the investment risk in a cash balance plan, as with any defined benefit plan, remains with the plan sponsor, not the participants.

Traditional defined benefit plans get a bad rap due to the uncertainty of the final lump sum payable to employees. However, cash benefit plans define an account balance that is exactly what the employee will receive upon termination. While a defined benefit plan payout is based on an IRS controlled interest rate (which can fluctuate by as much as 20 percent per year), cash benefit plans have no such wild fluctuations and are much more predictable year-to-year. In fact, a cash benefit plan is much easier for owners and employees to understand, since it really just mimics a savings account with a guaranteed return of four percent per year.

Let RAI's Hybrid Cash Balance **Plan Defend Your Egg**

When designed with a new comparability chassis, cash balance plans help employers to control the cost of benefits more than a traditional defined benefit plan using a uniform benefit formula. Cash balance plans are easily communicated to, understood by, and appreciated by participants. Moreover, when a cash balance plan is combined with a 401(k), business owners realize extreme flexibility in controlling costs and maximizing benefits.

WHY WORK WITH RAI?

Retirement Administration, Inc. shields business owner salaries and company profits with hyper-funded retirement plans and maximum tax deductions. We can create customized plans with alternative assets into private equity investments to fortify and shield savings. Our advanced strategies work with Cash Balance Plans, tiered profit sharing, 401(k), ROTH and ROTH converted plans.

Business owners realize more in salaries and profits by making significant tax-deductible contributions, while still meeting non-discriminatory regulations with a qualified retirement plan design. The plans are flexible, tailored and unique. Owners get the recruitment and retention tool they need to be competitive while keeping costs to a minimum.

FOR MORE INFORMATION

To learn more how RAI can help your business protect your profits and reduce taxes, please call **1.800.608.2563**, email dan@retirementadmin.com or visit us on the web.

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