

August 2018

Cash Balance Plans: 5 Things to Know Now

An article by Michael T. Burmeister, QPA, and Mary T. Stines



A lot of uncertainty exists in the healthcare arena today due to the constantly evolving healthcare environment. Physicians are dealing with vast amounts of new regulations and costs because of the *Affordable Care Act* and other recent legislation. Providers are looking for ways to reduce their tax burden. Many are looking at their savings and questioning if they are prepared financially for retirement. Will they be able to sustain the lifestyle they envision? A cash balance plan is one retirement savings option that is becoming an increasingly appealing choice for healthcare professionals seeking to catch up on retirement savings or even accelerate their retirement timeline.

A cash balance plan is a type of defined benefit plan that allows the healthcare practice owner to determine the practice's deduction and his or her own ability to defer income. These plans offer much greater flexibility than the more rigid requirements of the traditional defined benefit plans.

Unlike traditional defined benefit plans, cash balance plans have a guaranteed rate of return that is independent of the plan's investment performance. The rate can change annually and recently trends around 5 percent.¹

By deferring accumulated profits, a cash balance plan can funnel the majority of the benefit to the practice owners. Here are five facts about cash balance plans:

1. They Can Be Combined With Other Plans and Tailored for Individual Needs

Cash balance plans can be coupled with a business's existing traditional 401(k) plans, income distribution plans, and any other revenue allocating method the healthcare practice may have. This can allow plan participants to generate a larger amount of retirement savings.

These plans also can be tailored to fit the specific retirement strategies of various owners within a company, taking factors such as age and income into consideration. Calculations and estimations are made with the assistance of actuarial expertise.

For example, consider the case of a physician group made up of physicians of various ages. Doctor A is 60 years old and wants to put as much money as possible into his cash balance plan so he can retire within the next five years. Doctor B, who is in the same group practice, is 35 years old and plans to retire at age 65. The actuary can design the plan so that Doctor A can aggressively fund his retirement benefits. Doctor B has needs for short-term cash and may not want to fund her retirement plan as aggressively until later in her career. The cash balance plan design can be flexible enough to accommodate the individual needs of each practice owner.

2. Tax Benefits Are Significant

An attractive feature of cash balance plans is that the company offering the benefit can take an above-the-line tax deduction on contributions. Above-the-line deductions are desirable in that they reduce income dollar for dollar.

Cash balance plans paired with 401(k) plans also offer tax benefits for employees, who get to defer taxes on contributions until retirement, at which point the income earned could be taxed at a much lower income tax rate. Cash balance plan participants also have the flexibility to decide how much income to withdraw during each year of retirement, and they may even choose to receive the money in one lump sum.

3. The Maximum Contribution Allowance Is Higher

Cash balance plans allow participants to contribute significantly higher amounts than what can be contributed to traditional defined contribution plans, which typically have a contribution limit of \$60,000 maximum annually for an individual over age 50.

In a cash balance plan, participants' allocations can be significantly higher – up to \$300,000 annually. A total contribution amount of \$2.7 million is allowed.

For example, assume that a two-owner practice has a \$1 million profit. Doctor A takes a salary of \$250,000. The cash balance plan can be designed so that Doctor A's share of the contribution is the remaining \$250,000 of his half of the profit. Doctor B chooses to have her share of the contribution be \$50,000. Doctor B takes a salary of the remaining \$450,000. Net taxable income of the practice is zero.

4. The IRS Really Is OK With These Plans

For those new to cash balance plans, it is important to note that they are in fact IRS-qualified retirement plans. In 2014, the IRS issued finalized regulations supporting the cash balance concept as a viable retirement plan.² For many, this solidified their place among pension plan options.

5. They Can Make a Life-Changing Impact

As already noted, cash balance plan participants can amass a large amount of savings, sometimes in a short amount of time. This is an especially attractive feature for those who want to quickly boost their retirement savings, allowing them to retire in a manner that more closely mirrors their desired lifestyle.

For example, Doctor A, who is aiming to retire in five years, can, through the combination of the 401(k) plan and the cash balance plan, put away as much as \$300,000 per year into his retirement plans so that by the time he is ready to retire he has saved \$1.5 million. When Doctor C joins the practice as an experienced physician at age 55, the plans can be designed to allow Doctor C to receive allocations of up to the \$2.7 million maximum by age 65.



Enlist the Help of Experts

Cash balance plans can offer significant benefits and savings opportunities while providing a great deal of flexibility. However, they also involve complicated rules and regulations. Healthcare providers considering their retirement plan options should work with their tax adviser and their retirement plan consulting professionals.

Learn More

Mike Burmeister
Managing Director
+1 574 239 7861
mike.burmeister@crowe.com

Mary Stines
+1 574 239 7824
mary.stines@crowe.com

¹ "Cash Balance 101," Kravitz Inc., <https://www.cashbalancedesign.com/resources/cash-balance-101/>

² "New IRS Regulations Address Cash Balance Plan Requirements," Towers Watson Client Advisory, Sept. 18, 2014, <https://www.towerswatson.com/en-US/Insights/IC-Types/Ad-hoc-Point-of-View/2014/09/new-irs-regulations-address-cash-balance-plan-requirements>

crowe.com

"Crowe" is the brand name under which the member firms of Crowe Global operate and provide professional services, and those firms together form the Crowe Global network of independent audit, tax, and consulting firms. "Crowe" may be used to refer to individual firms, to several such firms, or to all firms within the Crowe Global network. The Crowe Horwath Global Risk Consulting entities, Crowe Healthcare Risk Consulting LLC, and our affiliate in Grand Cayman are subsidiaries of Crowe LLP. Crowe LLP is an Indiana limited liability partnership and the U.S. member firm of Crowe Global. Services to clients are provided by the individual member firms of Crowe Global, but Crowe Global itself is a Swiss entity that does not provide services to clients. Each member firm is a separate legal entity responsible only for its own acts and omissions and not those of any other Crowe Global network firm or other party. Visit www.crowe.com/disclosure for more information about Crowe LLP, its subsidiaries, and Crowe Global.

The information in this document is not – and is not intended to be – audit, tax, accounting, advisory, risk, performance, consulting, business, financial, investment, legal, or other professional advice. Some firm services may not be available to attest clients. The information is general in nature, based on existing authorities, and is subject to change. The information is not a substitute for professional advice or services, and you should consult a qualified professional adviser before taking any action based on the information. Crowe is not responsible for any loss incurred by any person who relies on the information discussed in this document. © 2018 Crowe LLP.