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Cash Balance Plans: Wealth Building for Leadership

Is your firm looking to offer more options around your current retirement plan? You might want to consider a cash balance plan as a potential wealth-building option for your leadership team. A cash balance plan is ideal for professional service firms who want to set up a plan to achieve qualified retirement plan tax deferrals in excess of defined contribution 401(k) plan limits. In the case study below, we walk through the benefits of implementing a successful new cash balance plan for a large regional law firm.

The Challenge

A large regional law firm wanted to provide greater tax-deferred wealth building and retirement saving opportunities for their partners. Most partners were maximizing their 401(k) deferrals but were limited by their current 401(k) plan's annual contribution limits. A key concern was that the partners could not accumulate enough savings to maintain their standard living in retirement through the 401(k) plan alone. The partners had been saving personally, but recognized that current taxes and higher retail investment fees were significant impediments to meeting their goals.

Another key concern was that they didn't want to end up with a plan that had an unfunded liability requiring active partners to fund benefits for retiring partners. They wanted the contributions funded by each partner to be returned to each partner at retirement along with the earnings from the pension trust.

The Solution

We recommended a cash balance plan as the solution that would allow partners the ability to defer significant additional income, tax-deferred. Also, the plan was designed to credit participants' cash balance plan accounts with the actual portfolio investment return within certain limits, to avoid any unfunded liability occurring due to investment performance. Because this firm has more than 50 partners, we were able to design a highly cost-effective, tax-deferred cash balance plan for partners only.

How the Plan Works

The partners make annual contributions based on a predefined formula and their cash balance account grows with the actual return on the plan's assets. The formula requires contributions based on partners' budgeted compensation for a year. Partners with higher budgeted compensation make larger contributions to their account. The annual contributions range from $5,000 to $200,000. The returns are determined on a daily basis. The partners can access their account balance at any time using our online administration portal, RetirementFocus™. This allows them to see their daily account balance based on actual daily plan returns. When a partner retires, they receive the value of their account balance as a lump sum payment.

Technical Issues Addressed Through the Design

In order to satisfy the hybrid pension plan rules there were some constraints placed on the design and operation of the plan. Our task was to design the plan so that all requirements could be met by design and any required compliance testing could be easily passed, avoiding any negative surprises. A maximum investment return and cumulative minimum investment return limit were applied to the cash balance accounts. However, the plan's investment strategy has been crafted so these maximum and minimum investment return limits should rarely come into play.

In order to satisfy benefit accrual rules, the plan was designed so that the accruals would change at certain ages but would change gradually. We modeled different accrual patterns for the partners to ensure the plan had enough margins to pass the testing on an annual basis while providing significant deferral opportunities for the partners. To satisfy annual coverage, minimum participation, and nondiscrimination testing to prove the plan does not unfairly discriminate in favor of the partners, the firm provides a 7.5% profit sharing to all non-attorney staff.

Cash Balance Plan Results

The plan continues to provide significant savings opportunities for the firm's partners especially as they get closer to retirement age. In the short time the plan has been in existence, senior partners who are close to retirement age have been able to defer and accumulate cash balance accounts in excess of $1 million.

In addition, the plan continues to pass all annual regulatory testing requirements. We developed an annual streamlined process to provide the firm with timely testing results, appropriate partner contribution amounts and actuarial valuation results. In addition, we developed a process to assist the firm's staff with annual retirement calculations support when needed. These steps allow the firm's staff to focus their time on other important benefit issues while the cash balance plan runs fairly autonomously.

Is a Cash Balance Plan Right for Your Firm?

This solution was developed specifically for a law firm but many other organizations can take advantage of this solution as well. Professional service firms such as physicians, architects, engineers and accountants should consider this plan design, as well as any other organization that has executives with the same challenges described here. Looking for a more detailed breakdown of how this option could benefit your firm? Check out all your options in our Whitepaper: *Retirement Program Options for Professional Firms*.

If you have further questions, please contact your Findley consultant or contact us at *info@findley.com*.