

Beyond the 401(k): Grow Your Business with Cash Balance Plans

Carlos Tariche

Regional Sales Director

About Kravitz

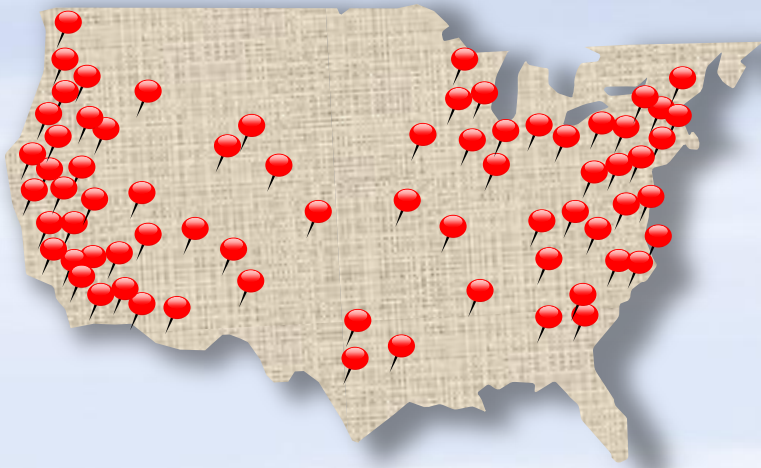
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✓ Founded October 15, 1977



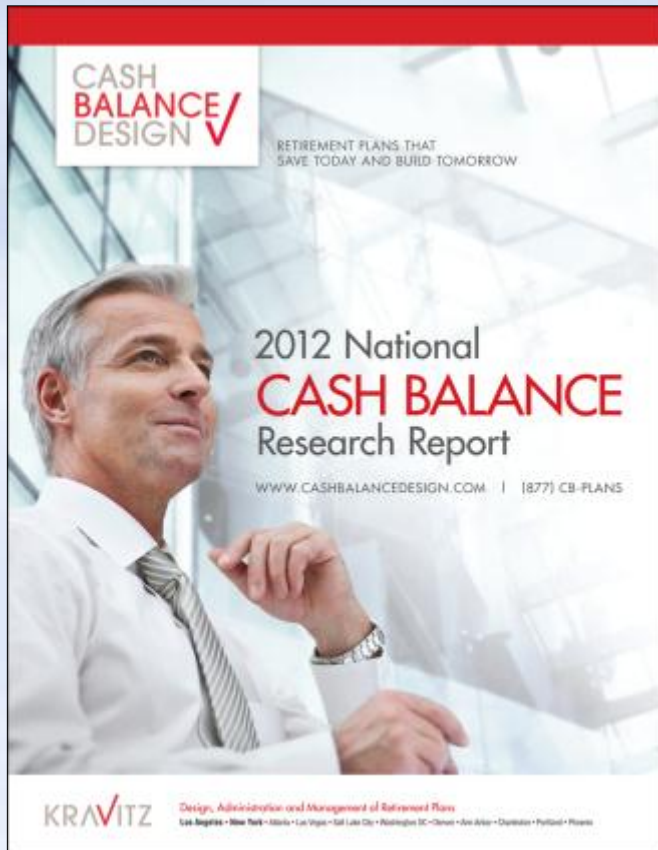
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About Kravitz



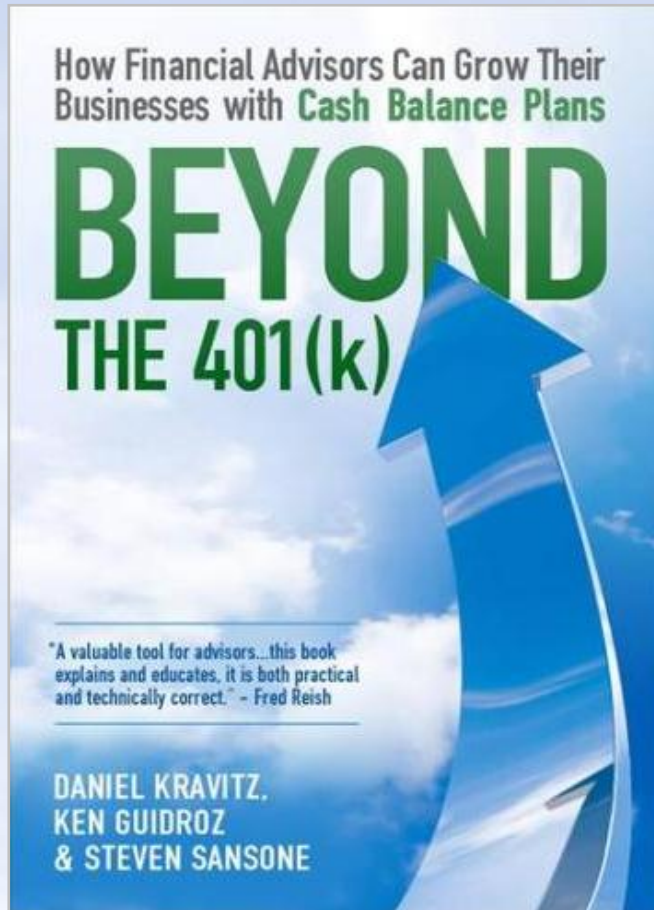
- ✓ Founded October 15, 1977
- ✓ 1,200+ clients

About Kravitz



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- ✓ National leader in Cash Balance Plans since 1989

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www.Amazon.com

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About Kravitz



- ✓ Founded October 15, 1977
- ✓ 1,200+ clients
- ✓ National leader in Cash Balance Plans since 1989
- ✓ Wrote the book on Cash Balance Plans
- ✓ YOU are our client!

Why Cash Balance and Why Now?

1) New tax thresholds:

✓ **\$450,000**

✓ **\$300,000**

✓ **\$250,000**



Why Cash Balance and Why Now?

2) “Above the line” deduction

- ✓ ***Federal***
- ✓ ***State***
- ✓ ***Medicare***



The New Federal Tax Protocol

2012 Rates

Investment Tax* = 0%

Highest income tax = 35%

Medicare tax** = 2.9%

Capital Gains/Dividend Tax = 15%

2013 Rates

Investment Tax* = 3.8%

Highest income tax = 39.6%

Surtax of .90% = 3.8%

Capital Gains/Div Tax = 23.8%

* Investment Income tax on all unearned income (interest, dividends, gains, rents & royalties, etc.)

** Medicare tax for individuals is 1.45%. Most company structures require an Employer matching amount of 1.45%. Most of these taxes applied on high wage earners earning >\$250k, agi, filing jointly.

What is a Cash Balance Plan?

**Defined
Contribution**

*401(k)
Profit Sharing*

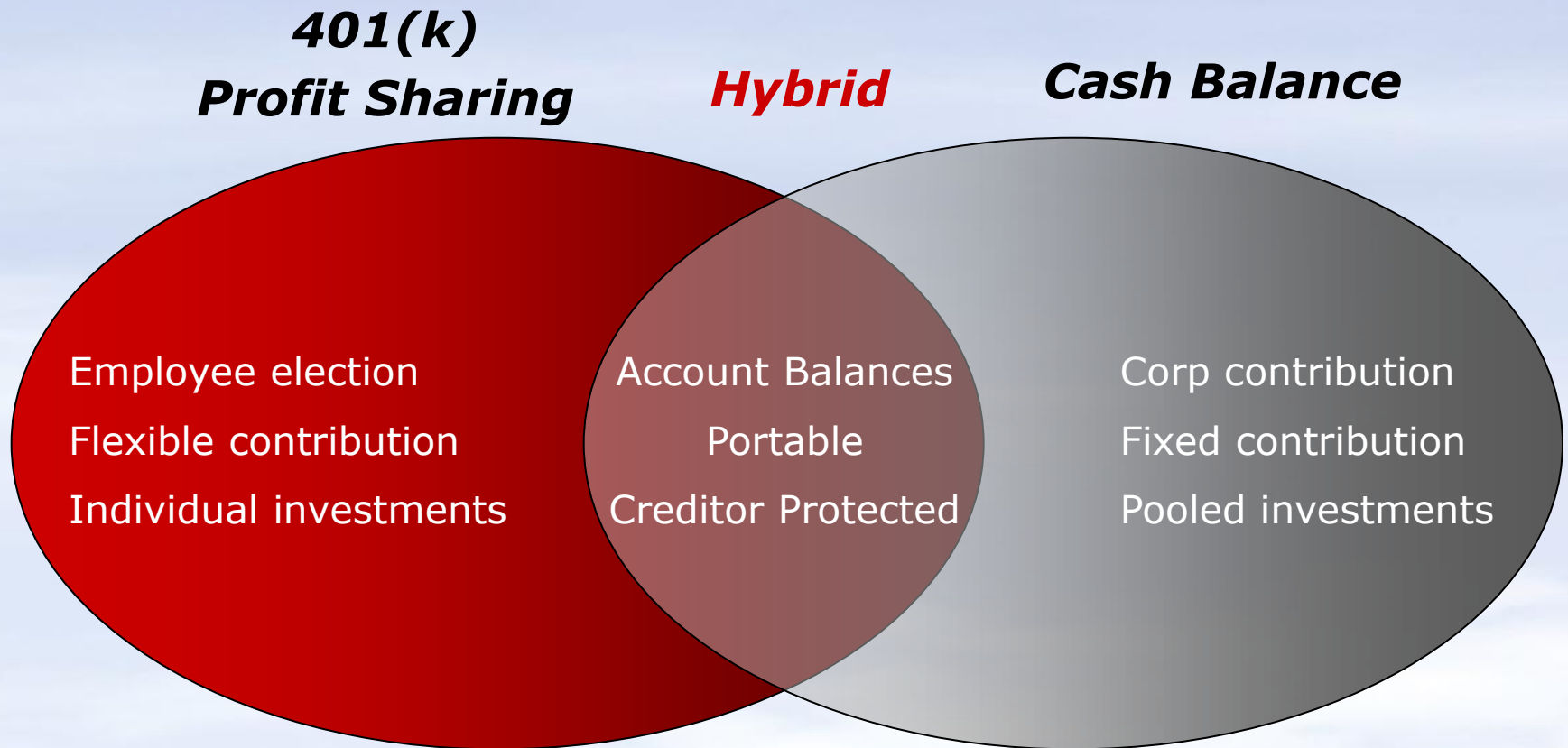
***Cash
Balance***

Hybrid

**Defined
Benefit**

Traditional

Similarities & Differences



Contribution Limits

2013 Contribution Limits

401(k) Profit Sharing & Cash Balance Plans

<u>Age</u>	<u>401(k) with Profit Sharing</u>	<u>Cash Balance</u>	<u>TOTAL</u>	<u>Tax savings*</u>
60 - 65	\$56,500	\$224,000	\$280,500	\$112,200
55 - 59	\$56,500	\$181,000	\$237,500	\$95,000
50 - 54	\$56,500	\$138,000	\$194,500	\$77,800
45 - 49	\$51,000	\$106,000	\$157,000	\$62,800
40 - 44	\$51,000	\$81,000	\$132,000	\$52,800
35 - 39	\$51,000	\$62,000	\$113,000	\$45,200
30 - 34	\$51,000	\$47,000	\$98,000	\$39,200

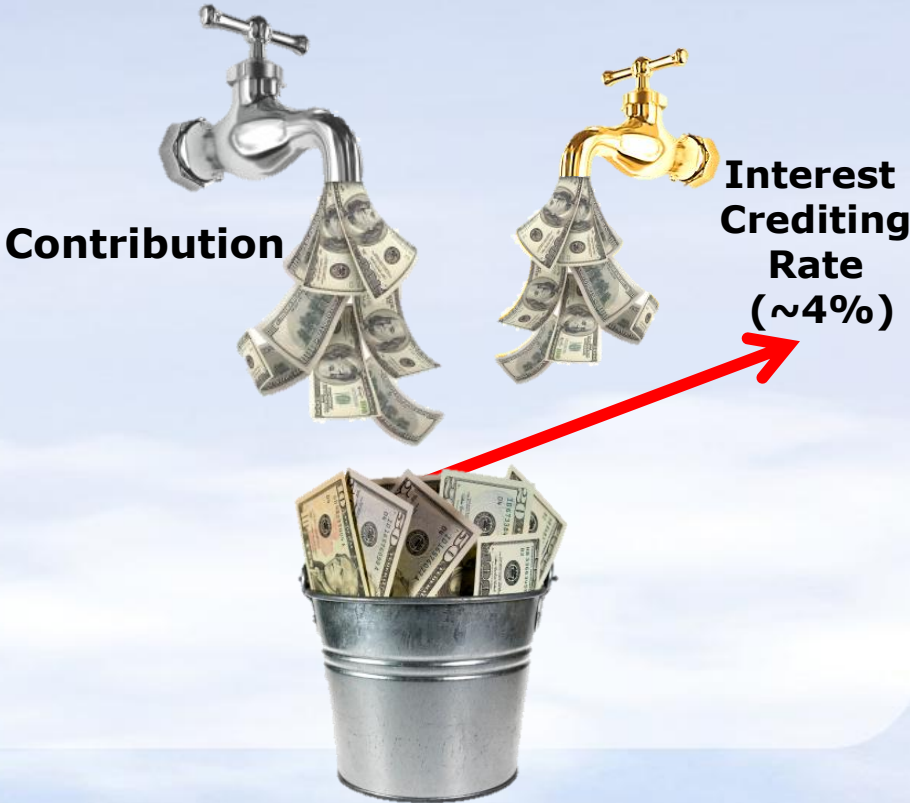
**Assuming 40% tax bracket, taxes are deferred*

How Do Cash Balance Plans Work?


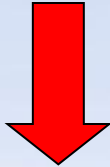
401(k)


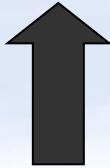


Cash Balance



Plan Investments

Earnings  ...next year's contribution 

Earnings  ...next year's contribution 

7-year make-up

Typical Company



Group 1: Owners

Owner 1	60	\$ 255,000
Owner 2	50	255,000
Owner 3	40	255,000
Owner 4	30	255,000

Group 2: Staff > \$115,000

Employee 1	50	165,000
Employee 2	45	125,000

Group 3: Staff

Employee 3	50	80,000
↓		
Employee 20	28	20,000

Common Plan - Maximize Owner

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Total Contribution</u>
Group 1: Owners					
Owner 1	60	\$ 255,000	\$ 23,000	\$ 33,500	\$ 56,500
Owner 2	50	255,000	23,000	33,500	56,500
Owner 3	40	255,000	17,500	33,500	51,000
Owner 4	30	255,000	17,500	33,500	51,000
Group 2: Staff > \$115,000				3% of pay	
Employee 1	50	165,000		\$ 4,950	\$4,950
Employee 2	45	125,000		3,750	3,750
Group 3: Staff				5% of pay	
Employee 3	50	80,000		4,000	4,000
Employee 20	28	20,000		1,000	1,000

Add Cash Balance

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>
Group 1: Owners					
Owner 1	60	\$ 255,000	\$ 23,000	\$ 33,500	\$0 to \$ 50,000
Owner 2	50	255,000	23,000	33,500	\$0 to \$ 50,000
Owner 3	40	255,000	17,500	33,500	\$0 to \$ 50,000
Owner 4	30	255,000	17,500	33,500	\$0 to \$ 50,000
Group 2: Staff > \$115,000				3% of pay	
Employee 1	50	165,000		\$ 4,950	\$ 0
Employee 2	45	125,000		3,750	0
Group 3: Staff				5% of pay	
Employee 3	50	80,000		4,000	1,000
↓				↓	↓
Employee 20	28	20,000		1,000	1,000

All Together

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>	<u>Total Contribution</u>
Group 1: Owners						
Owner 1	60	\$ 255,000	\$ 23,000	\$ 33,500	\$0 to \$ 50,000	\$ 106,500
Owner 2	50	255,000	23,000	33,500	\$0 to \$ 50,000	106,500
Owner 3	40	255,000	17,500	33,500	\$0 to \$ 50,000	101,000
Owner 4	30	255,000	17,500	33,500	\$0 to \$ 50,000	101,000
Group 2: Staff > \$115,000				3% of pay		
Employee 1	50	165,000		\$ 4,950	\$ 0	\$ 4,950
Employee 2	45	125,000		3,750	0	3,750
Group 3: Staff				5% of pay		
Employee 3	50	80,000		4,000	1,000	5,000
↓				↓	↓	
Employee 20	28	20,000		1,000	1,000	2,000
Subtotals		\$ 1,140,000	\$ 0	\$ 42,500	\$ 18,000	\$ 60,500
Grand Totals		\$ 2,160,000	\$ 81,000	\$ 176,500	\$ 218,000	\$ 475,500
Percent of Contribution to Owners:						87%

What If the Owners Want More?

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>
Group 1: Owners		
Owner 1	60	\$ 255,000
Owner 2	50	255,000
Owner 3	40	255,000
Owner 4	30	255,000



Maybe This is More on Target

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>	<u>Total Contribution</u>
Group 1: Owners						
Owner 1	60	\$ 255,000	\$ 23,000	\$ 33,500	\$0 to \$ 212,000	\$ 268,500
Owner 2	50	255,000	23,000	33,500	\$0 to 124,000	180,500
Owner 3	40	255,000	17,500	33,500	\$0 to 72,000	123,000
Owner 4	30	255,000	17,500	33,500	\$0 to 52,000	103,000
Group 2: Staff > \$115,000						
				<i>3% of pay</i>		
Employee 1	50	165,000		\$ 4,950	\$ 0	\$4,950
Employee 2	45	125,000		3,750	0	3,750
Group 3: Staff						
				<i>7.5% of pay</i>		
Employee 3	50	80,000		6,000	1,000	7,000
Employee 20	28	20,000		1,500	1,000	2,500



All Together

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>	<u>Total Contribution</u>	<u>Tax Savings*</u>
Group 1: Owners							
Owner 1	60	\$ 255,000	\$ 23,000	\$ 33,500	\$0 to \$ 212,000	\$ 268,500	\$ 107,400
Owner 2	50	255,000	23,000	33,500	\$0 to 124,000	180,500	72,200
Owner 3	40	255,000	17,500	33,500	\$0 to 72,000	123,000	49,200
Owner 4	30	255,000	17,500	33,500	\$0 to 52,000	103,000	41,200
Group 2: Staff > \$115,000				3% of pay			
Employee 1	50	165,000		\$ 4,950	\$ 0	\$4,950	
Employee 2	45	125,000		3,750	0	3,750	
Group 3: Staff				7.5% of pay			
Employee 3	50	80,000		6,000	1,000	7,000	
↓ Employee 20	28	20,000		↓ 1,500	↓ 1,000	2,500	
Subtotals		\$ 1,140,000	\$ 0	\$ 63,750	\$ 18,000	\$ 81,750	\$ 32,700
Grand Totals		\$ 2,160,000	\$ 81,000	\$ 197,750	\$ 478,000	\$ 756,750	\$ 302,700
Percent of Contribution to Owners:						89%	

Who is Ideal?

Income, income, income...



Who is Ideal?

“-Ologists”



Radiologists



Anesthesiologists

Who is Ideal?



Law firms

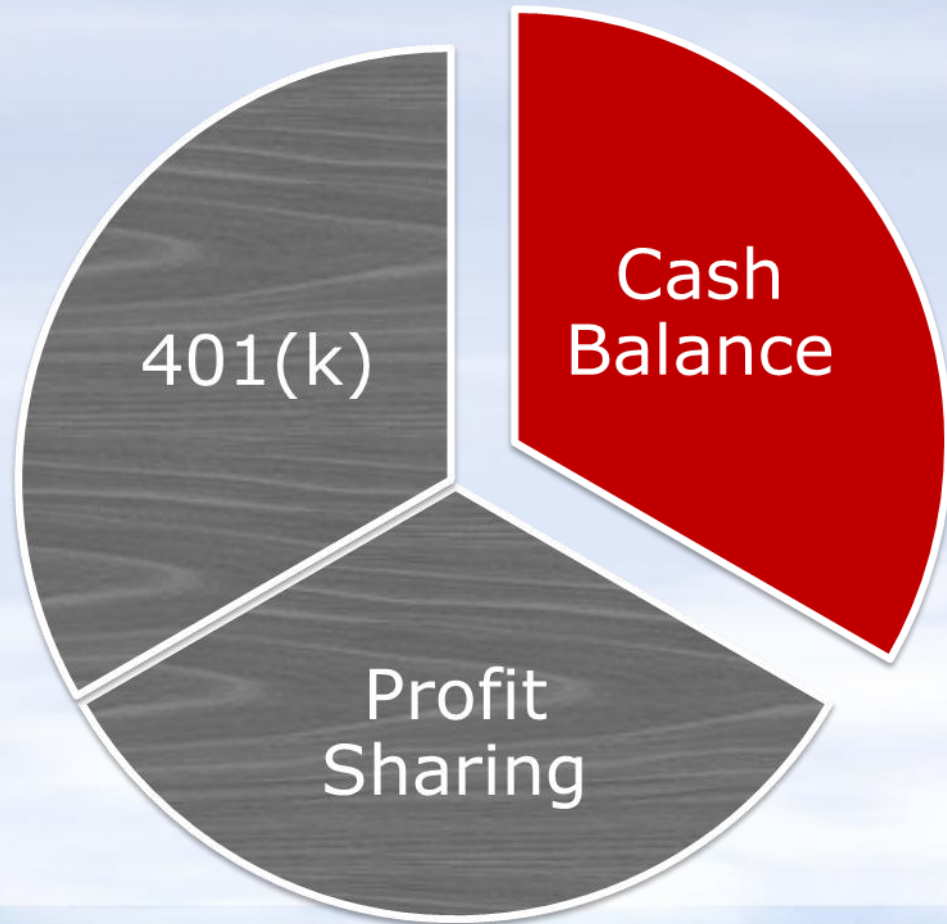
Who is Ideal?



Venture Capital/Financial Services

Who is Ideal?

**Businesses with
New Comparability
Plans in place**



Who is Ideal?



Companies with 1 – 500 Partners

**Account
Balance is
Portable**



Flexibility Among Shareholders



**Contribution amounts can change,
but use caution.**

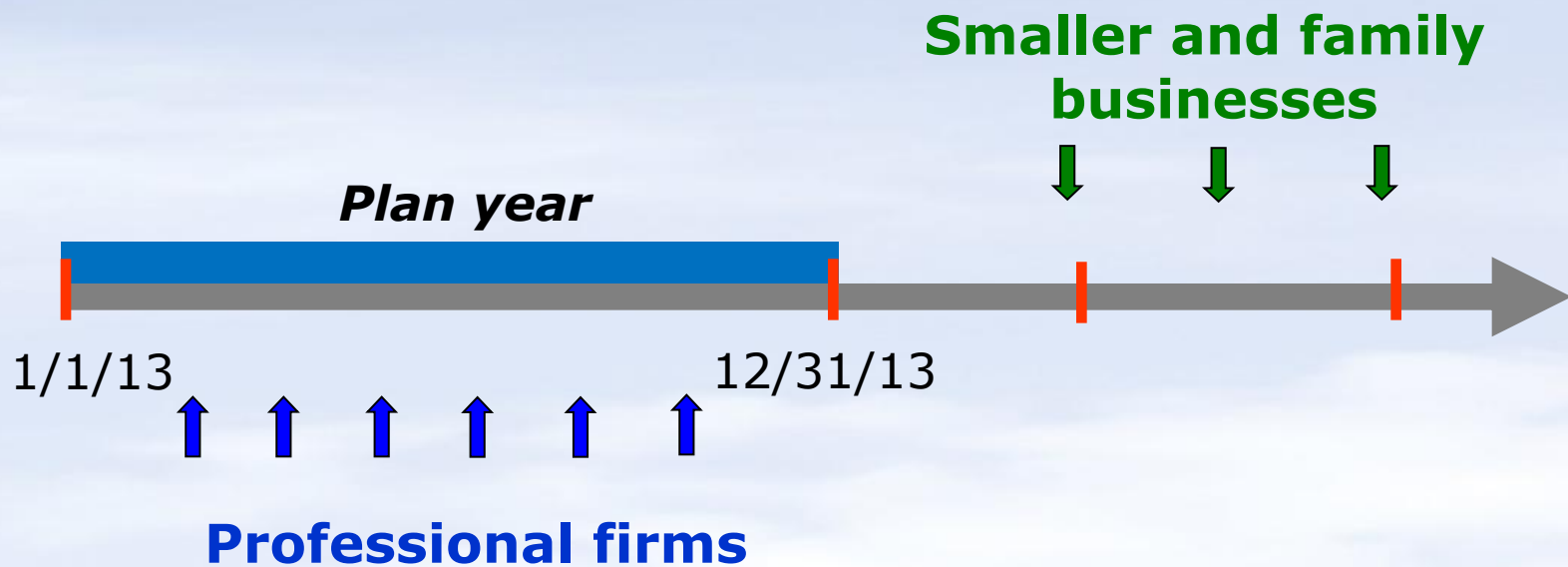
- a) Reduce 401(k)/PS**
- b) Amend**
- c) Freeze**
- d) Terminate**



Funding of the Plan



Funding Trends

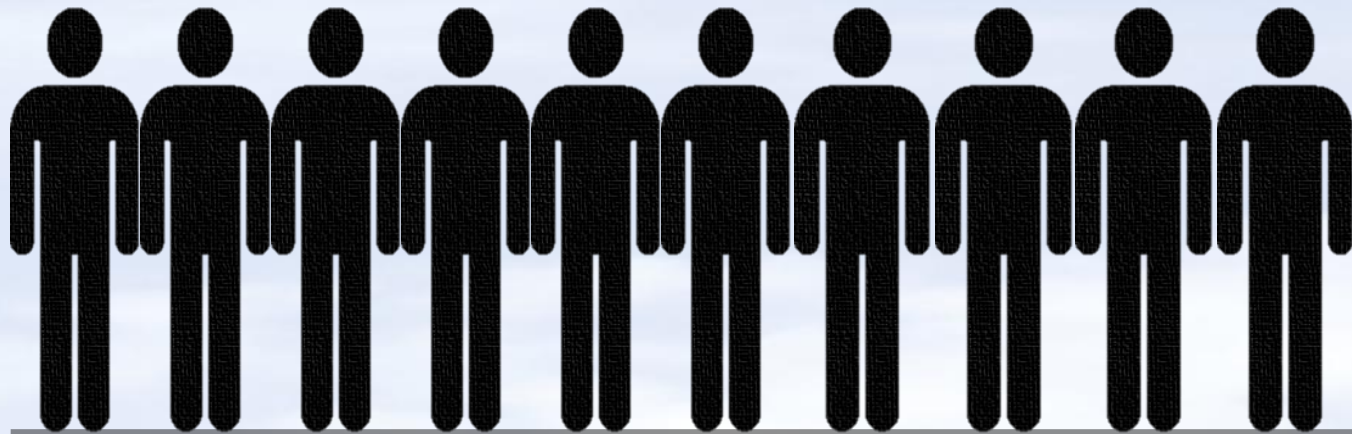


Who needs to be covered in the Cash Balance Plan?

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>
2 Owners					
James Marshall	61	\$ 255,000	\$ 23,000	\$ 33,500	\$0 to \$ 223,000
Tammy Marshall	56	65,000	23,000	9,750	\$0 to 54,000
Subtotals		\$ 320,000	\$ 46,000	\$ 43,250	\$ 277,000
4 Staff					
				<i>7.5% of pay</i>	
Brandon Byrd	41	51,000		\$ 3,825	\$ 700
Jessica Jensen	35	41,000		\$ 3,075	\$ 700
Ryan Osler	28	34,000		\$ 2,550	\$ 700
Jimmy Bond	44	21,000		\$ 1,575	\$ 700

Coverage Requirement

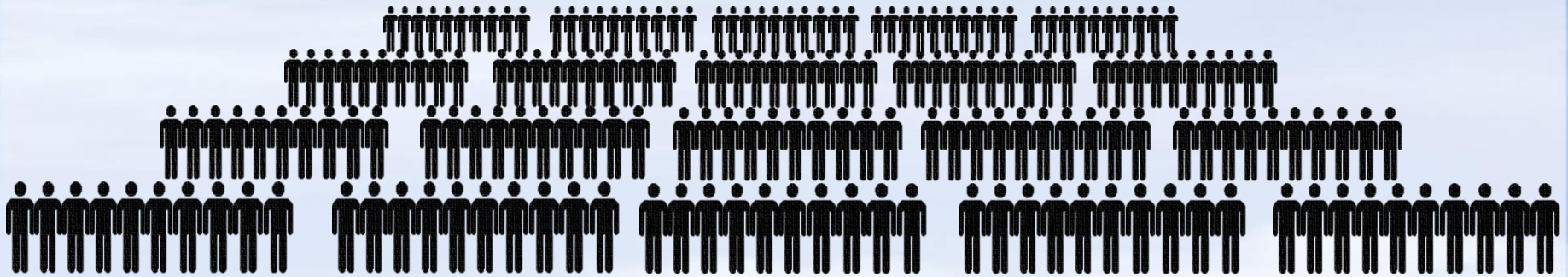
the lesser of:



40% of eligible participants

Coverage Requirement

OR



50 participants total

Key Features

Only 3 needed

<u>Name</u>	<u>Age</u>	<u>Annual Salary</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>
2 Owners					
James Marshall	61	\$ 255,000	\$ 23,000	\$ 33,500	\$0 to \$ 50,000
Tammy Marshall	56	65,000	23,000	9,750	\$0 to 50,000
Subtotals		\$ 320,000	\$ 46,000	\$ 43,250	\$ 100,000
4 Staff					
				5 % of pay	
Brandon Byrd	41	51,000		\$ 2,550	\$ 1,600
Jessica Jensen	35	41,000		\$ 2,050	
Ryan Osler	28	34,000		\$ 1,700	
Jimmy Bond	44	21,000		\$ 1,050	

Why Cash Balance Plans Appeal to Advisors?

Access to the Boardroom



Access to 401(k) Plan



Sales



#1 Sales Tool

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contribution	Tax Savings*
Group 1: Owners							
Owner 1	60	\$ 250,000	\$ 22,500	\$ 33,000	\$0 to \$ 200,000	\$ 255,500	\$ 102,200
Owner 2	50	250,000	22,500	33,000	\$0 to 115,000	170,500	68,200
Owner 3	45	250,000	17,000	33,000	\$0 to 85,000	135,000	54,000
Owner 4	35	250,000	17,000	33,000	\$0 to 50,000	100,000	40,000
Group 2: Staff > \$115,000				<i>3% of pay (or more)</i>			
Employee 1	50	165,000		\$ 4,950	\$ 0	\$4,950	
Employee 2	45	125,000		3,750	0	3,750	
Group 3: Employees				<i>7.5% of pay</i>			
Employee 3	50	80,000		6,000	1,000	7,000	
↓				↓	↓		
Employee 20	28	20,000		1,500	1,000	2,500	
Subtotals		\$ 1,140,000	\$ 0	\$ 63,750	\$ 18,000	\$ 81,750	\$ 32,700
Grand Totals		\$ 2,140,000	\$ 79,000	\$ 195,750	\$ 468,000	\$ 742,750	\$ 297,100
Percent of Contribution to Owners						88%	

#2 Sales Tool



Other Sales Resources

Ideal Candidates for Cash Balance Plans

1. Principals seeking a tax deduction of more than \$50,000 or making more than \$250,000 per year
2. Highly profitable companies of all types and sizes
3. Successful family businesses and closely held businesses
4. CPA and law firms, medical groups and professional firms
5. Older owners who need to squeeze 20 years of retirement saving into 10

Call for a free consultation to learn more about the advantages of a Cash Balance Plan.

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Ideal Candidate Card

2012 Maximum Contribution Limits 401(k), Profit Sharing & Cash Balance Plans

Age	401(k) only	401(k) with Profit Sharing	Cash Balance	TOTAL
60-65	\$22,500	\$55,500	\$203,000	\$258,500
55-59	\$22,500	\$55,500	\$164,000	\$219,500
50-54	\$22,500	\$55,500	\$125,000	\$180,500
45-49	\$17,000	\$50,000	\$96,000	\$146,000
40-44	\$17,000	\$50,000	\$73,000	\$123,000
35-39	\$17,000	\$50,000	\$56,000	\$106,000
30-34	\$17,000	\$50,000	\$43,000	\$93,000

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Other Sales Resources

Cash Balance 101



Cash Balance 101

A PRIMER ON CASH BALANCE PLANS

Many business owners and partners of firms are looking for larger tax deductions and accelerated retirement savings. Cash Balance Plans may be the perfect solution for them.

What is a Cash Balance Plan?

A Cash Balance plan is a type of IRS-qualified retirement plan known as a "hybrid" plan. In a Cash Balance Plan, each participant has an account that grows annually in two ways: first, an employer contribution and second, an interest credit, which is guaranteed rather than dependent on the plan's investment performance.

How much can be contributed for me in a Cash Balance Plan?

The employer contribution is determined by a formula specified in the plan document. It can be a percentage of pay or a flat dollar amount. Below are the limits for 2013:

401 (k) Profit Sharing & Cash Balance Plans				
Age	401 (k) with Profit Sharing	Cash Balance	TOTAL	Tax Savings*
60-65	\$56,500	\$212,000	\$268,500	\$107,400
55-59	\$56,500	\$171,000	\$227,500	\$91,000
50-54	\$56,500	\$131,000	\$187,500	\$75,000
45-49	\$51,000	\$100,000	\$151,000	\$60,400
40-44	\$51,000	\$76,000	\$127,000	\$50,800
35-39	\$51,000	\$58,000	\$109,000	\$43,600
30-34	\$51,000	\$45,000	\$96,000	\$38,400

*Assuming 40% tax bracket, taxes are deferred.

How does a Cash Balance Plan work?

The annual interest credit is guaranteed and is not dependent on the plan's investment performance. The interest credit is usually tied to the 30-year Treasury Securities Interest Rate (as defined annually by the IRS), which in recent years has been around 5%. When participants terminate employment, they are eligible to receive the vested portion of their account balance.

How are plan investments handled?

Plan assets are pooled and invested by the trustee or investment manager. If the plan's investment earnings exceed the guaranteed rate, the excess will be used to reduce future employer contributions. This will not affect the amount that is credited to the participants' accounts. Conversely if the plan's investment earnings are less than the guaranteed rate, then future employer contributions will be increased. This make-up is typically spread out over seven years. A wide range of investment vehicles can be used by the plan sponsor to achieve the interest crediting rate.

3 Step Sales Process

1. Illustration

Sample Company

Cash Balance Illustration - 2013

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Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contribution	Tax Savings*	
Group 1: Owners								
Owner 1	60	\$ 255,000	\$ 23,000	\$ 33,500	\$ 0 to \$ 212,000	\$ 268,500	\$ 107,400	
Owner 2	50	255,000	23,000	33,500	\$ 0 to 124,000	180,500	72,200	
Owner 3	40	255,000	17,500	33,500	\$ 0 to 72,000	123,000	49,200	
Owner 4	30	255,000	17,500	33,500	\$ 0 to 52,000	103,000	41,200	
Subtotals		\$ 1,020,000	\$ 81,000	\$ 134,000	\$ 460,000	\$ 675,000	\$ 270,000	
Group 2: Staff > \$115,000								
				<i>3% of pay</i>				
Employee 1	50	165,000		\$ 4,950	\$ 0	\$ 4,950		
Employee 2	45	125,000		3,750	0	3,750		
Group 3: Staff								
				<i>7.5% of pay</i>				
Employee 3	50	80,000		6,000	1,000	7,000		
↓				↓	↓			
Employee 20	25	20,000		1,500	1,000	2,500		
Subtotals		\$ 1,140,000	\$ 0	\$ 63,750	\$ 18,000	\$ 81,750	\$ 32,700	
Grand Totals		\$ 2,160,000	\$ 81,000	\$ 197,750	\$ 478,000	\$ 756,750	\$ 302,700	
Percent of Contribution to Owners						89%		

*Assuming a 40% tax rate; taxes are deferred only.

3 Step Sales Process

1. Illustration
2. Conference call



3 Step Sales Process

1. Illustration
2. Conference call
3. Redesign and sale



Top Advisor Tips

1. Develop champion and limit size of “sales” audience

- ▣ Partners sell partners



Top Advisor Tips

1. Develop champion and limit size of “sales” audience
 - ▣ Partners sell partners
2. Taxes, taxes, taxes (“Are you looking for a larger deduction?”)



Top Advisor Tips

1. Develop champion and limit size of “sales” audience
 - ▣ Partners sell partners
2. Taxes, taxes, taxes (“Are you looking for a larger deduction?”)
3. “CB is your safe money”, “Fixed income portion of portfolio”



Top Advisor Tips

1. Develop champion and limit size of “sales” audience
 - ▣ Partners sell partners
2. Taxes, taxes, taxes (“Are you looking for a larger deduction?”)
3. “CB is your safe money”, “Fixed income portion of portfolio”
4. Include the tax advisor (CPAs love this stuff)



Top Advisor Tips

1. Develop champion and limit size of “sales” audience
 - ▣ Partners sell partners
2. Taxes, taxes, taxes (“Are you looking for a larger deduction?”)
3. “CB is your safe money”, “Fixed income portion of portfolio”
4. Include the tax advisor (CPAs love this stuff)
5. Build your business by helping a key center of influence build his or her business



So What Now?

2013 EMPLOYEE CENSUS



Company Name:

Name	owner (%) or or relative of owner*	Birth Date	Hire Date	Compensation (W-2)

Illustration

Picture Worth
1,000 Words

Sample Company

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Cash Balance Illustration - 2013

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contribution	Tax Savings*
Group 1: Owners							
Owner 1	60	\$ 255,000	\$ 23,000	\$ 33,500	\$ 0 to \$ 212,000	\$ 268,500	\$ 107,400
Owner 2	50	255,000	23,000	33,500	\$ 0 to 124,000	180,500	72,200
Owner 3	40	255,000	17,500	33,500	\$ 0 to 72,000	123,000	49,200
Owner 4	30	255,000	17,500	33,500	\$ 0 to 52,000	103,000	41,200
Subtotals		\$ 1,020,000	\$ 81,000	\$ 134,000	\$ 460,000	\$ 675,000	\$ 270,000
Group 2: Staff > \$115,000							
				<i>3% of pay</i>			
Employee 1	50	165,000		\$ 4,950	\$ 0	\$ 4,950	
Employee 2	45	125,000		3,750	0	3,750	
Group 3: Staff							
				<i>7.5% of pay</i>			
Employee 3	50	80,000		6,000	1,000	7,000	
Employee 20	25	20,000		1,500	1,000	2,500	
Subtotals		\$ 1,140,000	\$ 0	\$ 63,750	\$ 18,000	\$ 81,750	\$ 32,700
Grand Totals		\$ 2,160,000	\$ 81,000	\$ 197,750	\$ 478,000	\$ 756,750	\$ 302,700

Percent of Contribution to Owners

89%

*Assuming a 40% tax rate; taxes are deferred only.

