



**RIGHT PATH**

A detailed 3D rendering of a compass rose with multiple points, mounted on a silver-colored base. The compass is positioned over a circular scale that has the words "RIGHT PATH" written on it in green, bold, sans-serif capital letters. The background of the slide is a dark blue gradient with curved lines.

# Cash Balance Defined Benefit Plans

January 1, 2025



CASH  
BALANCE  
PLAN

# BPAS Overview

retirement plan service provider since 1973



## Ownership

Subsidiary of Community Financial System, Inc.  
(NYSE: CBU)

Forbes: one of America's best banks

Newsweek: one of America's most trusted co.'s  
3,000+ employees and \$16B in assets

## Services

Workplace Retirement Plans | Actuarial &  
Pension | Fund Administration | Fiduciary |  
Health Benefit Consulting | IRA | VEBA/115  
Trust | Health & Welfare Plans | Institutional  
Trust

## Subsidiaries

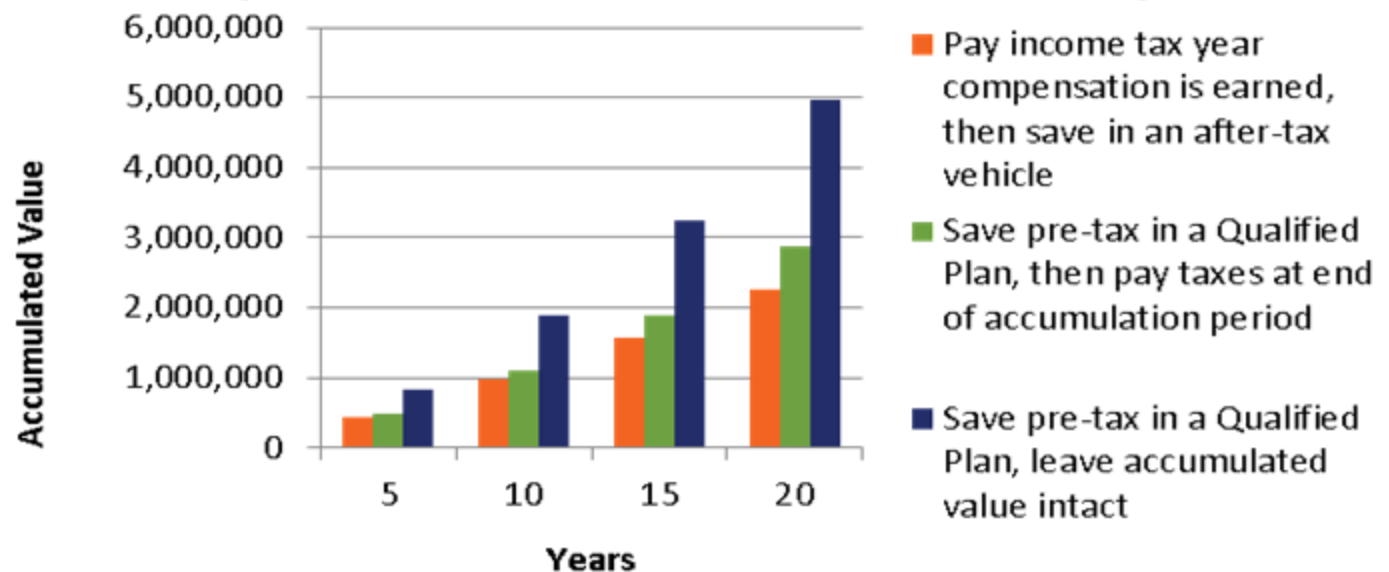
BPAS Trust Company of Puerto Rico  
Global Trust Company | Hand Benefits & Trust  
NRS Trust Product Administration





# Why Save Pre-Tax?

Projected Value of Saving \$150,000 of Compensation Annually (5% annual investment returns)



- Required/disciplined savings ensures that assets are set aside for retirement (i.e., not spent)
- Qualified retirement plans are protected from creditors



## Save More than \$70,000 a Year

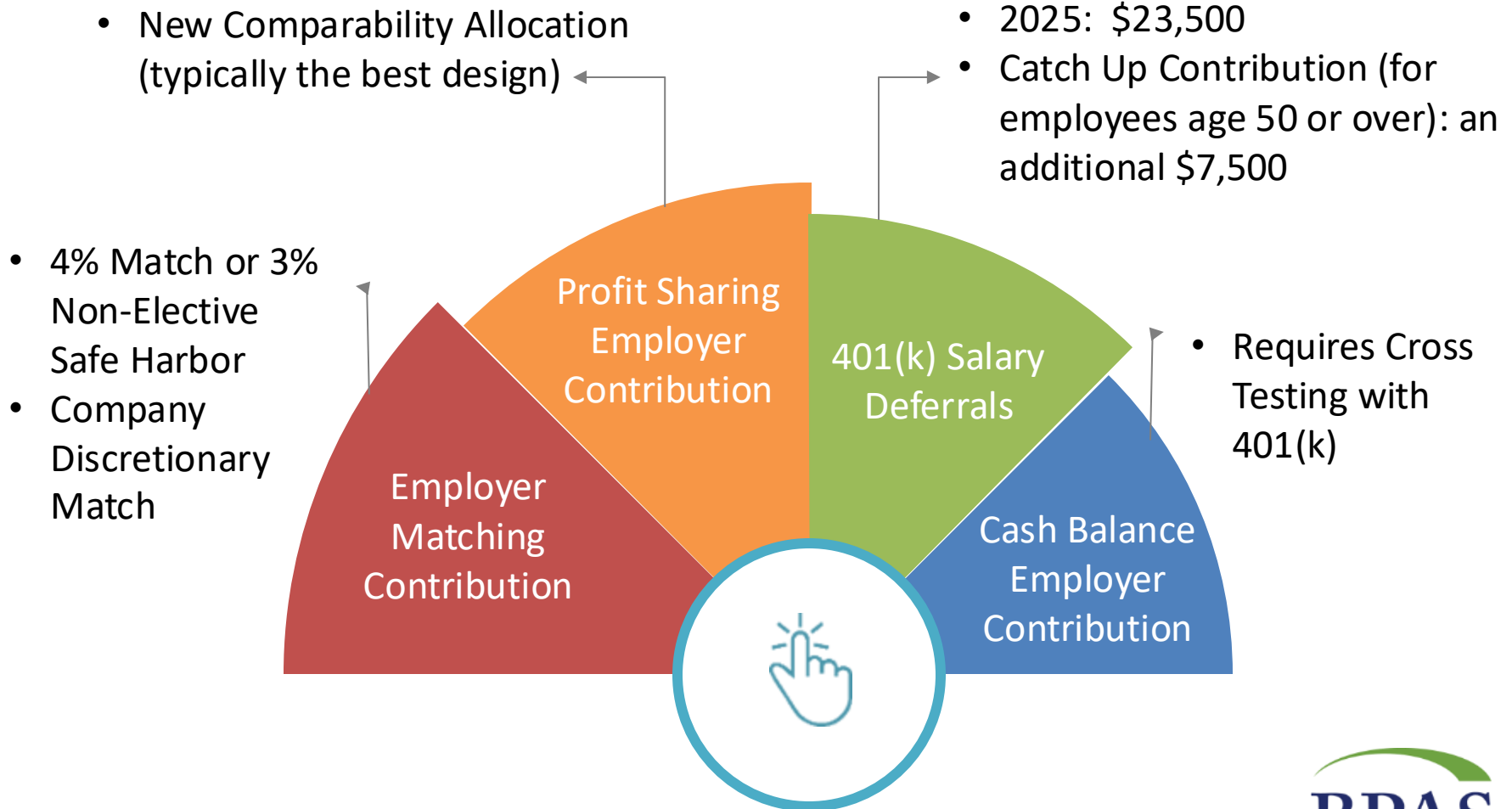
How can  
you save  
more than  
\$70,000 in a  
tax-deferred  
vehicle?

It's Easy

A Cash  
Balance  
Plan



# Retirement Program Components





# Why Cash Balance Plans?

Cash Balance Plans are the most rapidly growing segment of retirement plans for 2 reasons:

01

## Wealth Accumulation for Retirement

- Many small business owners have focused on building their business and not their retirement nest egg
- The \$70,000/\$77,500 contribution maximums in a 401(k) plan are not enough for those who started saving late
- Is selling business to fund retirement realistic?

02

## Taxes

- Larger tax deferrals
- Potential for permanent tax savings (State specific)



# Similarities & Differences

## DC Plan Similarities

- Hypothetical account for each participant
- Accounts grow annually based on contributions and interest credits
- Vesting schedule
- Account balance portable upon termination

## Pension-Specific Differences

- Actuarial Calculations
- Benefit based on defined benefit formula
- Annuity benefit option
- EE benefits not affected by investment return
- Benefits may be guaranteed by (PBGC)



CASH  
BALANCE  
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# The Power of Cash Balance Plans

## Maximum Service Credits for 2025

Age 62 NRA

<u>Age</u>	<u>Maximum CB Credit</u>	<u>Age</u>	<u>Maximum CB Credit</u>	<u>Age</u>	<u>Maximum CB Credit</u>
30	\$ 73,000	42	\$ 133,000	54	\$ 241,000
31	\$ 77,000	43	\$ 139,000	55	\$ 253,000
32	\$ 81,000	44	\$ 146,000	56	\$ 266,000
33	\$ 85,000	45	\$ 154,000	57	\$ 280,000
34	\$ 89,000	46	\$ 162,000	58	\$ 294,000
35	\$ 94,000	47	\$ 170,000	59	\$ 309,000
36	\$ 98,000	48	\$ 179,000	60	\$ 325,000
37	\$ 103,000	49	\$ 188,000	61	\$ 341,000
38	\$ 109,000	50	\$ 197,000	62	\$ 359,000
39	\$ 114,000	51	\$ 207,000	63	\$ 352,000
40	\$ 120,000	52	\$ 218,000	64	\$ 344,000
41	\$ 126,000	53	\$ 229,000	65	\$ 336,000

Maximum Lump Sum \$ 3,587,797





CASH  
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# Higher Contributions

Cash Balance Plan contributions are higher because:



It's a defined benefit (DB) pension plan



Statutory maximum is annual benefit at retirement (\$280,000 payable no earlier than age 62



Present Value of maximum benefit – the maximum permitted accumulation – is more than \$3.59M



Maximum allowable contributions are those necessary to fund this maximum age 62 accumulation over a period of not less than 10 years



## Higher Contributions Higher Tax Deferrals

### EXAMPLE

A high wage earner in NYS with \$200,000 in tax-deferred savings will lower taxes by:

\$74,000 in  
Federal taxes  
deferred (top rate  
of 37%)

\$13,700 in NYS  
taxes deferred  
(top rate of  
6.85% - excludes  
"millionaire" tax)

\$1,800 in  
Obamacare  
Medicare taxes  
saved (0.9%)



# Potential Medicare Tax Savings

Contributions made to a plan instead of paid as W-2 taxable compensation (*e.g., owners in C-Corp "bonused out" at year-end*)

Total tax reduction = \$95,300 – almost half!

Medicare taxes at the combined EE/ER 2.9% rate are *saved*, not deferred (*not applicable to pass-through entities*)

- \$87,700 in tax deferrals
- \$7,600 in permanent tax savings

Retiring to a state without income tax turns state tax deferrals into permanent tax savings



## What About the Existing Plan?

Cash Balance contributions are often *in addition to* maximum DC plan contributions

- Complicated tax deduction rules apply to small professional service employers (<25) and Owner-Only plans

A 55-year-old could potentially get:

- CB contribution of \$253,000
- *plus* the \$70,000 DC maximum
- *plus* \$7,500 in 401(k) catch-up contribution
- Total = \$330,500 *annually*



# CASH BALANCE PLAN

## Plan Design Summary

**EXAMPLE**

Participant	Estimated Eligible Comp	401(k) Deferral	3% Safe Harbor	Profit Sharing	Cash Balance	Total Retirement	Current Design	Difference
Owner Age 55	350,000	31,000	-	47,000	253,000	331,000	77,500	253,500
NHCE Age 40	62,000	-	1,860	2,635	1,395	5,890	3,100	2,790
NHCE Age 30	55,000	-	1,650	2,338	1,238	5,225	2,750	2,475
NHCE Age 25	35,000	-	1,050	1,488	788	3,325	1,750	1,575
Grand Totals	502,000	31,000	4,560	53,460	256,420	345,440	85,100	260,340
Owner Percentage of Owner Invested Cost =						96%	91%	97%

### Design Notes:

- Assumed current design to be safe harbor 401(k) with cross-tested profit sharing and 5% total contribution for employees.
- Owners will typically receive over 90% of total contribution dollars invested and often receive nearly all of the additional contribution dollars invested.
- If Owners will contribute 4.5% to 5% for employees to save \$70,000 to \$77,500 for themselves, why would they not contribute another 4.5% to 5% for employees to individually save an additional \$100K, \$150K, \$200K or more for themselves?
- \* If small professional services (doctor, lawyer, etc.) then combined plan deduction limit could prevent Owner from getting maximum profit sharing, which would be reduced to \$19,320 in the above example such that total Employer contributions to the DC plan are 6% of eligible payroll. Owner still gets approximately 96% of the total and 97% of the incremental difference.

### Assumptions & Notes:

Cash balance interest crediting rate assumed 4% fixed  
Actuarial conversion of cash balance using IRS mortality and 5%  
Normal Retirement/Testing Age of 62



# What's the Catch?



## **Qualified retirement plan = complex IRS rules**

- Coverage & non-discrimination
- Maximum benefits
- Minimum eligibility, participation, and vesting



## **DOL (ERISA)**

- Reporting/Disclosure requirements



## **PBGC coverage & premiums, unless exempt**

(professional services < 25 plan participants and owner only)

- 2025 flat rate = \$106/participant (plus variable rate premium if plan is under funded)

**Point: need expert/specialist to administer**



# Cash Balance Plan Candidates



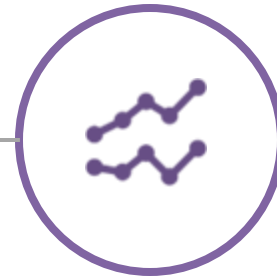
Owners that are relatively older than employees



Owners with compensation at or near \$350,000 after funding.



Business cash flow is sufficient to fund the program for at least 3-5 years



Owners are able to contribute 7.5% to 10% of pay for employees annually on a non-matching basis



Owners max out the DC plan at \$70,000



# CASH BALANCE PLAN

## Investing Holistically

### The Spectrum of Vehicles

	Totality of Vehicles	Cash Balance Plan	401(k) Plan	IRA	Outside of Tax Qualified Plans
Accumulations		Cap on Lump Sum	No Maximum Lump Sum	No Maximum Lump Sum	No Maximum Accumulation
Investment Options		Pooled Investments	Individual Direction Limited by Plan Options	Individual Direction with Some Statutory Restrictions	Individual Direction
Taxability		Distributions Taxed as Ordinary Income			Potential for Favorable Capital Gains Tax Treatment
Common Investment Approach	<div><div></div><div>Conservative</div><div>Aggressive</div></div>				
Risk Seeking Assets	40-80%	20-50%	Depends on Appetite for Risk	Depends on Appetite for Risk	60-100%
Fixed Income	20-60%	50-80%			0-40%





# BPAS Expertise



Service



Experience



Compliance

Given the complexities of a combined CB/401(k), it is advantageous to have the same provider service both plans

**BPAS Delivers**

- **BPAS Actuarial & Pension Services (APS):** Provides expert Cash Balance services and coordinates interaction between plans
- **BPAS Plan Administration & Recordkeeping (PARK):** Provides expert, flexible Defined Contribution services

**One company. One call.**





# 2023 Client Survey Results

## 99%

would choose BPAS again

- *Every aspect of service provided has been outstanding*
- *Not only do they have expertise in their field, they are great listeners and very tolerant of all my dumb questions. We are lucky to have them on board.*

## 99%

would recommend BPAS

- *I would highly recommend this group of people!*
- *Very professional, very responsive, very knowledgeable and very patient. I enjoy working with them all.*

## 98%

say BPAS exceeds their expectations

- *The BPAS staff far exceeded our expectations.*
- *30 years in business, you are the "Best."*
- *We appreciate all that you do for us.*

**BPAS Plan Consultants** scored outstanding or higher in these categories:



**Overall Value**



**Innovative Ideas**



**Responsiveness**



**Meets Objectives**



**Our People**



**Communication**



## Let's Connect



**Jason Disco**

Senior Vice President,  
Pension Sales &  
Consulting  
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Pension Services



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### **Referring a Lead?**

- Provide census information in Excel
- Provide information on corporate structure (e.g., C-Corp, S-Corp, Partnership, etc.), existing plan, if any, prospective client objectives, and any other relevant information



**RIGHT PATH**

Q&A  
Open Discussion