BPAS Actuarial and Pension Services

- Cash Balance Plans -

BPAS Overview

- **3,800 engagements**
- **More than 400,000 plan participants**
- **$1 Trillion in fund administration**
- **$52 billion in trust assets**
- **Ten offices and 335 professional employees across US and Puerto Rico**

Subsidiary of a NYSE-traded company (NYSE: CBU)

2,300 employees, more than $10 billion in assets, and 200 customer facilities

Heavily regulated and compliant

Examined by OCC, IRS, DOL, SEC, Texas Dept. of Banking, PR Office of Financial Institutions, Internal and External Auditors

Specialty practices include

Auto enrollment plans, multiple employer plans and trusts, plans with employer securities, Puerto Rico 1081 plans, VEBA/HRA plans, cash balance plans, collective investment funds and fund administration

Want to Save More than $55,000 a Year?

How can you save that much in a tax-deferred vehicle?

A Cash Balance Plan

Cash Balance Plans – Why?

- Cash Balance Plans are the most rapidly growing segment of retirement plans
- 2 Reasons:
  - Wealth Accumulation for Retirement
  - Taxes

  - Many small business owners have focused on building their business and not their retirement nest egg
  - The $55,000/$61,000 contribution maximums in a 401(k) plan are not enough for those who started saving late
  - Hope of selling business to fund retirement realistic?
  - Larger tax deferrals

Maximum Service Credits
2018

Age 62 NRA

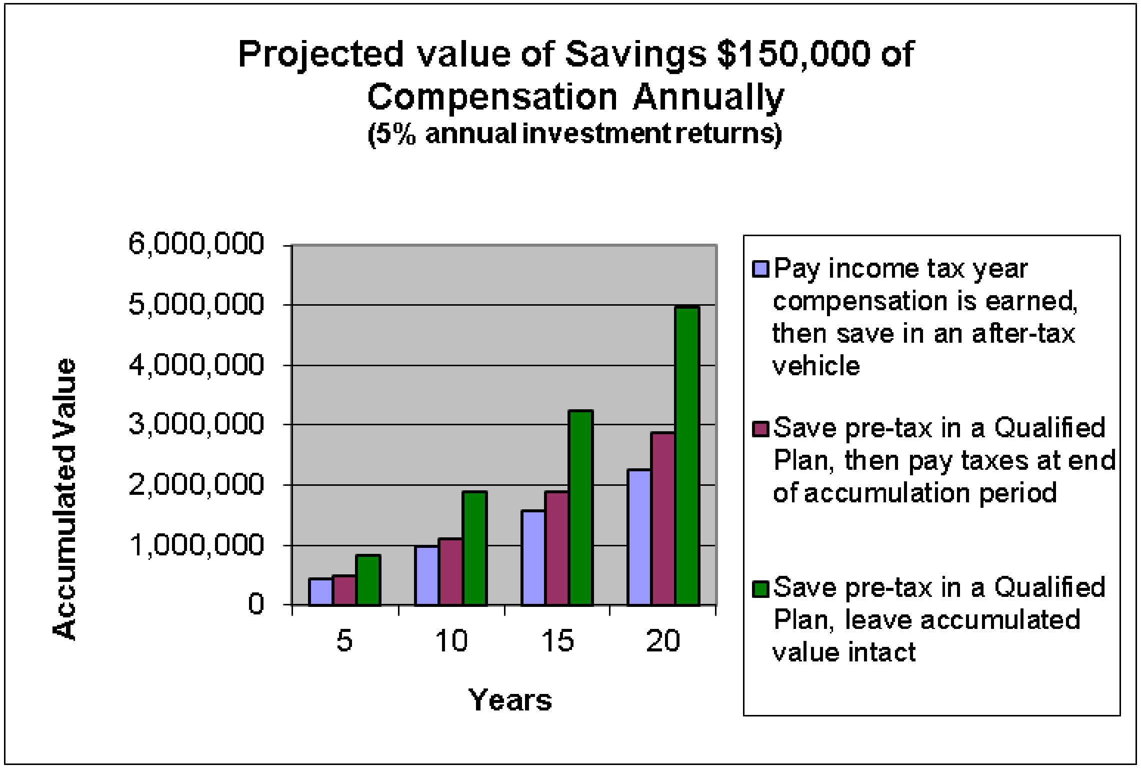
Age	Maximum CB Credit	Age	Maximum CB Credit	Age	Maximum CB Credit
30	$ 58,000	42	$ 105,000	54	$ 190,000
31	$ 61,000	43	$ 110,000	55	$ 200,000
32	$ 64,000	44	$ 116,000	56	$ 210,000
33	$ 67,000	45	$ 122,000	57	$ 221,000
34	$ 70,000	46	$ 128,000	58	$ 232,000
35	$ 74,000	47	$ 134,000	59	$ 244,000
36	$ 78,000	48	$ 141,000	60	$ 256,000
37	$ 82,000	49	$ 148,000	61	$ 269,000
38	$ 86,000	50	$ 156,000	62	$ 283,000
39	$ 90,000	51	$ 164,000	63	$ 278,000
40	$ 95,000	52	$ 172,000	64	$ 272,000
41	$ 100,000	53	$ 181,000	65	$ 266,000

Maximum Lump Sum $ 2,832,611

Why are these so much higher?

- Cash Balance Plan contributions are higher because…
  - It's a defined benefit (DB) pension plan
  - Statutory maximum is annual benefit at retirement ($220,000 payable no earlier than age 62)
  - Present Value of maximum benefit – the maximum permitted accumulation – is approximately $2.83M
  - Maximum allowable contributions are those necessary to fund this maximum age 62 accumulation over a period of not less than 10 years

Why Save Pre-Tax?



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

Higher Contributions = Higher Tax Deferrals

- For a high wage earner in NYS, for example, $200,000 in tax-deferred savings will lower taxes by:
  – $79,200 in Federal taxes deferred (top rate of 39.6%)
  – $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

- If contributions made to a plan instead of paid as W-2 taxable compensation (e.g., owners in C-corp "bonused out" at year-end) Medicare taxes at the combined EE/ER rate 2.9% are *saved*, not deferred. (Not applicable to pass-through entities.)

- Total tax reduction = $100,500 – more than half!
  - $92,900 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 often *in addition to* the existing maximum level of DC plan contributions
  - complicated tax deduction rules apply to some small employers (<25)
- A 55-year-old could potentially get:
  - CB contribution of $200,000
  - *plus* the $55,000 DC maximum
  - *plus* $6,000 in 401(k) catch-up contribution
  - Total = $261,000 *annually*

Example Plan Design Summary

	Eligible Comp	401(k) Deferral	3% SH Non-Elec	Profit Sharing*	Cash Balance	Total Retirement	Current Design	Difference
Owner Age 55	275,000	24,500	-	36,500	200,000	261,000	61,000	200,000
NHCE Age 40	50,000	-	1,500	2,000	1,250	4,750	2,500	2,250
NHCE Age 30	35,000	-	1,050	1,400	875	3,325	1,750	1,575
NHCE Age 25	25,000	-	750	1,000	625	2,375	1,250	1,125
Grand Total	385,000	24,500	3,300	40,900	202,750	271,450	66,500	204,950
				Owner Percentage of Owner Invested Cost =		96%	92%	98%

- Assumed current design to be safe harbor 401(k) with cross-tested profit sharing and 5% 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%-5% for employees to save $55,000 to $61,000 for themselves, why would they not contribute another 4.5%-5% for employees to individually save an additional $100K, $150K, $200K 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 $15,400 in the above example such that total Employer contributions to DC plan are 6% of eligible payroll. Owner still gets approximately 96% of the total and 97% of the incremental difference.

What's the catch?

- Qualified retirement plan = complex IRS rules
  - coverage and nondiscrimination
  - maximum benefits
  - minimum eligibility, participation, and vesting
- DOL (ERISA) reporting/disclosure requirements
- PBGC coverage and premiums, unless exempt (professional services < 25 plan participants)
  - 2018 flat rate = $74/participant (plus a variable rate premium if plan is under funded)
- Point: need expert/specialist to administer

Who’s a candidate?

- A Cash Balance candidate is a business where:
  – Owners have compensation at or near $275,000
  – Owners maxing out the DC plan at $55,000
  – Owners are relatively older than their employees
  – Owners are willing and able to contribute at least 7.5% to 10% of pay for employees annually
  – Business cash flow is sufficient and relatively stable for funding program for at least the next 3-5 years

BPAS Expertise

- Given the complexities of a combined CB/401(k) arrangement, it is advantageous to have the same provider service both plans if possible
  - BPAS Actuarial and Pension Services (APS) has the expertise and experience to provide the Cash Balance services and coordinate the interaction between plans
  - BPAS Plan Administration and Recordkeeping (PARK) has the expertise and experience to provide the defined contribution solution with the necessary flexibility

Who you gonna call?

Referring a Lead

– **Jason Disco**, Director of Defined Benefit Sales, BPAS Actuarial and Pension Services

P 315-703-8916

E jdisco@bpas.com

- Provide census information in Excel
- Provide information on existing plan, if any, prospective client objectives and any other relevant information

BPAS Lines of Business

One Company. One Call.

- Plan Administration & Recordkeeping Services
- Actuarial & Pension Services
- TPA Services
- VEBA & HRA/HSA Services
- Fiduciary Services
- Healthcare Consulting Services
- AutoRollovers & MyPlanLoan Service administration
- Hand Benefits & Trust
- BPAS Trust Company of Puerto Rico
- Global Trust Company
- NRS Trust Product Administration