

Exploring the Benefits of Combining a 401(k) with a Cash Balance Plan

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Many business owners have the same financial goals: minimize taxes and increase retirement savings while mitigating cost. Business owners seek to accomplish these goals by adopting a Cash Balance Plan combined with a 401(k) Profit Sharing Plan, as this strategy could be a cost effective way to maximize benefits for business owners.

For businesses that already have a 401(k) plan, the addition of a Cash Balance Plan is an ideal option to lower taxes and accelerate retirement savings rather than just a standalone 401(k) Profit Sharing Plan. WesBanco Trust and Investment Services can help businesses design a strategy to maximize both contributions to the Cash Balance Plan and deferrals to the 401(k) Profit Sharing Plan.

What is a 401(k) Profit Sharing Plan?

A 401(k) Profit Sharing Plan is a defined contribution plan that allows eligible employees to make pre-tax elective deferrals through payroll deductions; some plans may also allow for after-tax (ROTH) deferrals. Employers also have the option of making matching contributions based on employees' elective deferrals, and/or making non-elective (i.e. profit sharing) contributions to eligible employees.

As a defined contribution plan, the employee assumes the investment risks, and the value of the account will fluctuate with changes in the value of the investments the employee has selected. Upon retirement, the employee will receive the balance in the account, which is made up of contributions and investment gains (or losses).

What is a Cash Balance Plan?

A Cash Balance plan is a defined benefit plan that defines the benefit in terms that are more characteristic of a defined contribution plan. In other words, a Cash Balance plan defines the promised benefit in terms of a stated account balance. Similar to other defined benefit plans, the employer assumes the investment risk, not the employees.

An employee's account earns a pay credit (i.e. 5% of their salary each year), in addition to an interest credit, which is set at a fixed or variable rate on the account balance. An investment manager invests the assets for the plan. Employees receive periodic statements displaying their hypothetical account balance at retirement.

The benefits that are received are defined in terms of an account balance. The participant can choose to receive an income for life, or take a lump sum benefit and roll it into an IRA or another qualified plan, allowing the participant to retain flexibility over their retirement.

Benefits of Combining Both Plans:

The chart to the right compares the 2019 Contribution Limits for 401(k) Deferrals, 401(k) Profit Sharing, and Cash Balance plans based on age. As the figures show, the Cash Balance plan offers significantly higher contribution limits that may provide a potential boost to retirement assets.

AGE	401(K) DEFERRAL	401(K) WITH PROFIT SHARING	CASH BALANCE	TOTAL
60 - 65	\$25,000	\$62,000	\$261,000 - \$271,000	\$323,000 - \$333,000
50 - 59	\$25,000	\$62,000	\$158,000 - \$248,000	\$220,000 - \$310,000
40 - 49	\$19,000	\$56,000	\$96,000 - \$151,000	\$152,000 - \$207,000
30 - 39	\$19,000	\$56,000	\$58,000 - \$91,000	\$114,000 - \$147,000

Source: Emparion » Cash Balance Plans » <https://www.emparion.com/cash-balance-plan-lifetime-contribution-limits/>; Kravits Cash Balance Design » <https://www.cashbalancedesign.com/resources/contribution-limits/>

The combination of a Cash Balance plan and a 401(k) Profit Sharing plan can be a cost effective way to provide greater retirement benefits to owners of the company.

EMPLOYEE	AGE	SALARY	401(K) ELECTIVE DEFERRAL	EMPLOYER 3% SAFE HARBOR CONTRIBUTION	EMPLOYER PROFIT SHARING CONTRIBUTION	EMPLOYER CASH BALANCE CONTRIBUTION	TOTAL CONTRIBUTION	% OF TOTAL
Owner	46	\$280,000	\$19,000	\$8,400	\$28,600	\$117,385	\$173,385	87%
Employee 1	50	\$75,788	-	\$2,274	\$1,516	\$1,895	\$5,684	3%
Employee 2	25	\$33,828	-	\$1,015	\$677	\$846	\$2,537	1%
Employee 3	34	\$51,382	-	\$1,541	\$1,028	\$1,285	\$3,854	2%
Employee 4	47	\$43,398	-	\$1,302	\$868	\$1,085	\$3,255	2%
Employee 5	47	\$46,281	-	\$1,388	\$926	\$1,157	\$3,471	2%
Employee 6	39	\$58,581	-	\$1,757	\$1,172	\$1,465	\$4,394	2%
Employee 7	27	\$43,074	-	\$1,292	\$861	\$1,077	\$3,231	2%
Owner Totals		\$280,000	\$19,000	\$8,400	\$28,600	\$117,385	\$173,385	87%
Staff Totals		\$352,332	-	\$10,570	\$7,047	\$8,808	\$26,425	13%
Grand Totals		\$632,332	\$19,000	\$18,970	\$35,647	\$126,193	\$199,810	100%

Source: Retirement Management Services, LLC » <https://www.consultrms.com/Resources/44/Cash-Balance-Plans/77/Cash-Balance-Plans>

A retirement plan can enhance your business by providing a cost effective savings plan for you and your employees. WesBanco can customize a plan for your business and your budget. If you already have a retirement plan, we can review your current plan and offer recommendations at no obligation.

WesBanco has the capability to act as Corporate Trustee for the plan, reducing a business's fiduciary liability. We can serve as an investment manager for the plan or assist in developing a diversified investment menu for participant directed accounts. For more information, or to schedule an appointment with a retirement specialist, please call WesBanco Trust and Investment Services toll free at **800-905-9043** and ask to be directed to our Retirement Benefits Team.

Let our Retirement Benefits Team customize a retirement plan for your practice.