

Cash balance plan illustration



Wealth
Management

Provides one of the highest contributions and tax deductions

The contributions for cash balance plans are calculated based on the employees' ages, compensation and employee classes. The employer decides the percent of contribution for each employee. Since this type of cash balance plan heavily favors the owners or key employees, it is almost always set up in combination with a 401(k) plan so that together they satisfy nondiscrimination requirements.

Cash balance plans work especially well where owners or key employees and some of the other employees are more advanced in age. They work best for a business with at least eight employees. The following is only one example of how a cash balance and 401(k) plan combination can benefit your company.

Summary of contributions

Employee	Age	Compensation	Employee 401(k) elective deferral	401(k) catch up contribution	Employer 3% safe harbor contribution	Employer profit sharing contribution	Employer cash balance contribution	Total	Contribution as a % of total
Owner	60	\$265,000	\$18,000	\$6,000	\$0	\$35,000	\$237,286	\$296,286	90.88%
Employee 1	55	\$55,000	\$0	\$0	\$1,650	\$2,475	\$1,250	\$5,375	1.65%
Employee 2	50	\$50,000	\$0	\$0	\$1,500	\$2,250	\$1,250	\$5,000	1.53%
Employee 3	45	\$45,000	\$0	\$0	\$1,350	\$2,025	\$1,250	\$4,625	1.42%
Employee 4	40	\$40,000	\$0	\$0	\$1,200	\$1,800	\$1,250	\$4,250	1.30%
Employee 5	35	\$35,000	\$0	\$0	\$1,050	\$1,575	\$1,250	\$3,875	1.19%
Employee 6	30	\$30,000	\$0	\$0	\$900	\$1,350	\$1,250	\$3,500	1.07%
Employee 7	25	\$25,000	\$0	\$0	\$750	\$1,125	\$1,250	\$3,125	.96%
Total contribution			\$18,000	\$6,000	\$8,400	\$47,600	\$246,036	\$326,036	100%

Summary of tax savings

Total contribution for owners	\$296,286
Total contribution and deduction	\$326,036
Less: estimated tax savings	\$146,716
Net cash paid out	\$179,320
Owner's contribution paid by tax savings	\$116,966

Conclusion

Not only is the owner receiving a contribution of \$237,286 by only paying out a net cash amount of \$179,320, the other employees are receiving contributions totaling \$29,750 without any additional cash outlay.

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