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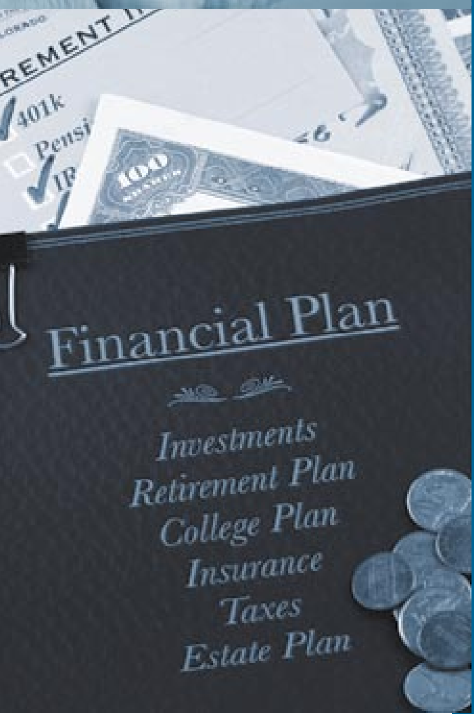

How Would You Like the Flexibility of a Defined Contribution Plan With the Larger Contributions of a Defined Benefit Plan...

…A Cash Balance Plan May be the Answer for You!

Advantages of Cash Balance Pension Plans:

•Much higher contribution amounts for pre-tax dollars

•Acceleration of retirement savings

•A carefully designed plan combined with 401(k) Profit Sharing can provide contribution flexibility, as well as contribution amounts that are significantly higher than the $45,000 401(k) profit sharing plan limit

•Portable in the event of job-change or termination (IRA roll overs)

•Assets protected from creditors in the event of bankruptcy

•More flexible than traditional Defined Benefit plans

•Many distribution options upon retirement: lump sump payout or rollover to IRA

To find out how, flip over to the other side, or call ERP Actuaries and Consultants at 212.292.5060 and let us show you!

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Though Treasury has been approving these plans since the mid-eighties, and the actuaries & consultants at ERP have been designing these plans for years, the recent enactment of the Pension Protection Act of 2006 (PPA 2006) has made these plans an even more attractive solution to many business owners and professional practices.

What is a Cash Balance Plan?

A Cash Balance Plan is a type of defined benefit plan that operates in ways similar to a Profit Sharing Plan. The benefit is shown as the amount of contribution credited, the interest earned, and the value of the participant's account.

Why a Cash Balance Plan?

Contributions, which are tax-deductible, can be significantly more than the 401(k) profit sharing limits.

How does a Cash Balance Plan work?

Each participant has an individual account, similar to a 401(k). The account accumulates in two ways. First, an employer contribution is determined by a formula specified in the plan document, usually as a percentage of pay. Second, the account accumulates with an annual interest credit. The rate of return is guaranteed and is not dependent of the plan's investment performance. The rate of return can be defined as a nominal rate (ex. 5%), or it can be defined based on the 30 year treasury, or some other conservative index with very little volatility. When participants terminate employment, they will be eligible to receive the vested portion of their account balance. A participant's vested percentage is determined based on the participant's years of employment, as well as the plan's vesting schedule.

Plan investment and contribution

Individual participants are not able to invest their account – plan assets are pooled and invested by the trustee or investment manager. The accounts of the participants will be credited with interest at a rate guaranteed by the plan (often the 30 year treasury rate), regardless of the actual investment return.

If the plan's investment earnings exceed the Interest Credit Rate defined in the plan, the excess will be used to reduce future employer contributions and will not affect the amount of interest earned in the participant's account. That is, the account will increase according to the plan's schedule and the increased investment return is used to reduce future employer contributions.

Conversely, if the plan's investment earnings are less than the plan's Interest Credit Rate, then future employer contributions will be increased, spread over a period of 5 years. With this consideration in mind, assets held in a cash balance plan are usually invested in conservative, less volatile investments.

Can a Cash Balance Plan be combined with a 401(k) Profit Sharing Plan?

Yes, combining plans is an effective way to provide the business owner with contributions that are significantly more than the 401(k) limit of $45,000, while adding more flexibility than a cash balance or any defined benefit plan alone can provide.

Distribution options

The vested accounts in a Cash Balance Plan can be paid as a lump sum distribution or rolled over to an IRA upon the participant's retirement or termination of employment. In addition, an annuity form of benefit could be elected.

Are Cash Balance Plan contributions discretionary?

No, contributions are mandatory. However, if coupled with a 401(k) profit sharing plan, the 401(k) deferrals as well as the employer provided profit sharing contributions are discretionary. In addition, a cash balance plan can be amended prospectively to reduce or freeze all future benefits from the plan. This will reduce or eliminate contributions in future years.

Must everyone participate equally in a Cash Balance Plan?

No. Within government limits employers can designate different contribution amounts for the participants in the plan.

Tax deductions and allocation of plan contributions for partnerships

Tax deductions for contributions made on behalf of non-partner employees are taken on the partnership tax return. Tax deductions for contributions made on behalf of partners are taken on their personal or corporate tax returns.

Is the plan subject to IRS discrimination testing?

Yes, like any other qualified plan it is subject to nondiscrimination testing. A company or professional firm can anticipate employer contributions in the range of 7.5% for staff if the owners or partners receive the maximum Cash Balance contribution which can be $150,000 or more depending on the age of the partner or business owner. The exact percentage required for staff employees depends on the results of discrimination testing.

Who are good candidates for a Cash Balance Plan?

- Owners or partners who desire to contribute more than $45,000 per year.
- Organizations that have demonstrated consistent profit patterns.
- Organizations already contributing 3-4% or more to employees, or at least willing to.
- Owners or partners over 45 years of age who desire to "catch-up" on their pension savings.

Why ERP Actuaries & Consultants

Designing a plan that maximizes the benefits to the business owners while complying with all of the very complex combined plan benefit limits, deductible limits and nondiscrimination rules requires an actuarial consulting firm well experienced with these types of combined plan designs. The actuaries and consultants at ERP have years of experience with these types of Cash Balance Plans. ERP is the only firm that has the experience to maximize the benefits that these plans can provide at minimal staff cost.