

A PRACTICAL OPTION TO HELP
BOOST RETIREMENT SAVINGS



CASH BALANCE PLAN

Ameritas Life Insurance Corp. of New York

Cash Balance and You

Creating a successful retirement program may require more than offering a 401(k). Additional tax deductions and accelerated retirement savings for key employees are two reasons to consider adding a Cash Balance plan.

Are you a business owner looking for additional tax savings? Are there executives within your organization who want to save more for retirement than the allowable limits in your current 401(k) or profit sharing plan? Or perhaps you're a small business owner looking to accelerate your retirement savings. If so, then consider a Cash Balance plan.

What is a Cash Balance plan?

A Cash Balance plan is a retirement plan that incorporates the features of a defined benefit and a defined contribution plan. Because of its flexibility, business owners and employees find this plan attractive.

- Like a defined benefit plan, it provides a guaranteed benefit at retirement.
- Like a defined contribution plan, it provides participants with an easily communicated benefit through an annual statement of their account balance.

Benefits of a Cash Balance plan

- Ability to make substantially higher contributions
- Rapid acceleration of retirement savings
- Account balance can be paid as a lump sum
- Benefits are easily communicated
- Benefits are portable when changing jobs
- Qualified plan assets are protected from claims of creditors
- An attractive benefit for recruiting and retaining employees

Why Cash Balance plans?

It offers greater savings potential

A participant's contribution may increase with age. Legal limits that apply are based on the maximum accumulation at retirement. Currently, that amount is over \$2 million.

The concept is easy to understand

You can adopt a plan that awards each participant an annual cash balance credit. This is usually a percentage of the participant's pay. You must guarantee any interest that is to be credited to each participant "account." A participant's benefit is the sum of the cash balance credits plus guaranteed interest.

It helps attract and retain employees

Because the concept of a Cash Balance plan is based on age and salary, this type of plan benefits those who are older, more highly compensated, and often the owners and/or principals of a business.

It's portable

A Cash Balance plan typically allows participants to cash out or roll over their retirement benefit when they change jobs.

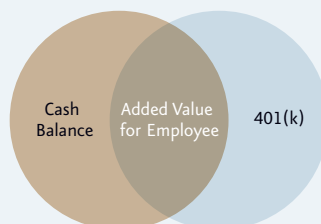


Design and Function

The addition of a Cash Balance plan will complement a 401(k) by providing select individuals or groups with a way to rapidly accelerate their retirement savings.

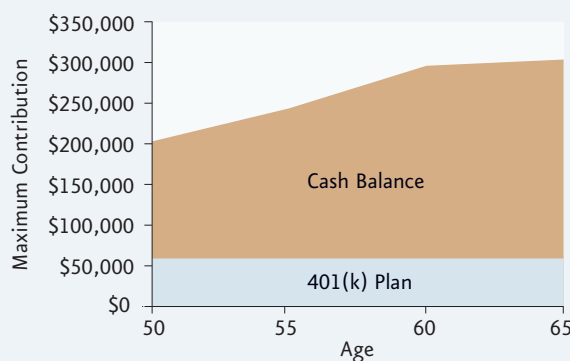
How two plans working together boost savings

While the retirement benefits of a 401(k) are based on the performance of investments selected by the participant, a Cash Balance plan's investments are controlled by the plan sponsor to achieve a predetermined outcome. Both the annual Cash Balance contribution and the interest credits are guaranteed. If your company does not offer a 401(k), one should be established—typically a Safe Harbor plan with the non-elective 3% contribution.



Maximum Contributions

The chart shows initial annual contribution based on the current age of the participant. Future costs are about the same each year until the participant no longer earns benefits under the plan.



Age	401(k) with Profit Sharing ¹	Cash Balance	Total
50	\$59,000	\$143,921	\$202,921
55	\$59,000	\$184,613	\$243,613
60	\$59,000	\$236,891	\$295,891
65	\$59,000	\$244,579	\$303,579

¹ 401(k): \$18,000; Catch-up: \$6,000; Profit Sharing: \$35,000

The 3 Cs of Cash Balance

A Cash Balance plan requires commitment, continuity, and annual contributions. The IRS requires that a Cash Balance plan be permanent and on-going. Plan termination is not recommended within the first five years unless there is a major business interruption, such as the death of an owner.

A Cash Balance plan creates a required funding obligation. Current benefit increases must be funded each year. The plan sponsor must make up investment losses over no more than seven years. Although the plan may be amended to reduce or stop future benefit accruals, any past promise must be kept and funded.

Interest Crediting

Plan assets are pooled and invested by the trustee or investment manager. The key to a successfully funded Cash Balance plan is to have the earnings match as closely as possible to that of the crediting rate as determined by the plan sponsor. This will minimize large fluctuations in contributions.

Funding Methods

Our strategy to the funding requirement is our Guaranteed Account² offered under the Retirement Advantage Series, a group variable annuity contract issued by Ameritas Life Insurance Corp. of New York. In most instances this product can be designed to match the crediting formula selected by the plan sponsor.

The Guaranteed Account has an interest rate that is declared up front and guaranteed for one year unlike most alternative funding methods (Stable Value and Guaranteed Investment Contracts). This provides plan sponsors with a clear measurement of earnings versus crediting rates.

Changing Contributions

Cash Balance contributions can change, but with restrictions. Cash Balance plans are not profit sharing plans where contributions can vary each year depending on profitability. However, they can be amended periodically to increase or decrease the individual contribution credit. This will affect the overall contributions made to the plan. If an employer's profit cannot support the Cash Balance plan contribution, the plan must be amended before participants complete 1,000 hours of service during a calendar plan year. Most participants reach 1,000 hours in June.

Employers may choose to make budget projections by mid-April to make certain they can afford the contribution. Plans may also be frozen or terminated in accordance with certain regulatory requirements.

Other Considerations

- Plans are subject to the minimum funding regulations
- Annual discrimination testing applies
- Certain plans are required to be covered by the Pension Benefit Guaranty Corporation (PBGC)³
- Investment risk is borne by the employer
- Higher set up and on-going administration costs (Use of a Third-Party Administrator is required by a Cash Balance plan.)

² Guarantee is based on the claims-paying ability of the issuing company.

³ The Pension Benefit Guaranty Corporation is not affiliated with Ameritas Mutual Holding Company.

Case Study

This successful small business has three owners who are seeking larger retirement benefits. At the same time, they want to keep their employee benefit costs reasonable.

How ABC Company's Cash Balance Plan Works

The accompanying chart shows two plans—a 401(k) and a Cash Balance Plan—and how they work together to allow key personnel to save more for retirement than if only a 401(k) profit sharing plan were available.

Census Data			4
Participant	Age	Plan Comp	Salary Deferral
Owner A	46	\$ 265,000	\$ 18,000 ⁴
Owner B	52	\$ 265,000	\$ 24,000 ⁴
Owner C	58	\$ 265,000	\$ 24,000 ⁴
Employee 1	38	\$ 45,827	\$ 0
Employee 2	28	\$ 37,798	\$ 0
Employee 3	46	\$ 42,685	\$ 0
Employee 4	53	\$ 45,046	\$ 0
Owner Total		\$ 795,000	\$ 66,000
Employee Total		\$ 171,356	\$ 0
Plan Total		\$ 966,356	\$ 66,000
% to owners			100%

Census Data

A summary of employee census data is the basis for illustrating the combined value of a 401(k) and Cash Balance plan. It typically includes the names or positions of all participants, their ages, and the plan compensation for determining their plan contributions.

401(k) & Profit Sharing Plan

Adding a Cash Balance plan may result in changes to your existing 401(k). Monies can be contributed different ways—salary deferral, employer match, profit sharing, etc. In this example, only the deferrals of the owners are shown. This was done since salary deferrals represent no additional cost to the business owner and to more easily illustrate the costs and benefits for the owner and compare them to the costs and benefits for employees. Keep in mind that, at a minimum, every eligible employee must be invited to participate.

Cash Balance Plan

This shows the Cash Balance contributions made on behalf of each eligible participant. These credits are based on the plan formula selected by the plan sponsor. There are several methods of crediting employer contributions to Cash Balance Plans, including a fixed percentage of earnings, and a percentage that varies by age, service, and earnings. These contributions are tested for IRS compliance.



401(k) & Profit Sharing		Cash Balance Plan	
3% Safe Harbor	Profit Sharing ⁵	Cash Balance	Grand Total allocated to participants' accounts
	\$ 14,000	\$ 117,900	\$ 149,900
	\$ 14,000	\$ 158,900	\$ 196,900
	\$ 14,000	\$ 214,300	\$ 252,300
\$ 1,375	\$ 5,141	\$ 0	\$ 6,416
\$ 1,134	\$ 1,833	\$ 0	\$ 2,967
\$ 1,281	\$ 1,921	\$ 0	\$ 3,201
\$ 1,351	\$ 2,027	\$ 0	\$ 3,378
\$ 0	\$ 42,000	\$ 491,100	\$ 615,063
\$ 5,140	\$ 10,922	\$ 0	\$ 15,962
\$ 5,140	\$ 52,922	\$ 491,100	\$ 631,025
0%	79%	100%	97%

The employer contribution in a Cash Balance plan is actuarially determined each year. It may be higher or lower based upon current assets, actual investment yields, turnover, and required funding minimums and maximums.

Cash Balance plans are flexible, allowing for different contributions to each participant. In this example, each owner of ABC Company was awarded the same Cash Balance credit. However, Owner A's maximum allocation could be higher since he is five years older than Owner B.

Combination Advantages

For participants: A Cash Balance plan, with its predetermined outcome, helps establish a solid foundation for participants. The benefits of a Cash Balance plan are assured and are not subject to economic conditions or market fluctuation. This may also allow them to seek the potential for a higher return on their 401(k) plan by assuming greater investment risk.

For business owners: A Cash Balance plan may lower employee benefit costs. When a Cash Balance plan is combined with a 401(k), an actuary can consider both benefits for compliance testing. By awarding assets inside the 401(k) plan, the employer may elect to award lower Cash Balance credits to employees.

⁴ Represents maximum contribution amounts.

⁵ This formula, which determines the profit sharing allocation, is specific to each plan sponsor.

Who Is a Good Candidate?

A Cash Balance plan would be appealing to:

- Owners or partners who are contributing the maximum to their current defined contribution plan
- Companies with a demonstrated consistent profit pattern that are comfortable with the idea of required contributions and can bear the investment risk
- Owners or partners age 45 or older that want to accelerate their retirement savings
- Companies with a new comparability profit sharing plan
- Owners wanting to transfer their ownership interest in the next 5-10 years

Find Out More

Our representatives can answer your questions and show you how a Cash Balance plan can work for you. For more information, call 800-923-2732.



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