FINDLEY *perspective*

*August 14, 2018*

# The Practical Cash Balance Plan: Planning for the Administration of Your Plan

By *Tom Swain*

Are you considering or have you recently set up a cash balance plan? Does your organization have multiple owner-employees? You likely have been focused on plan designs to achieve your retirement and wealth-building objectives; it's now time to address ongoing administration. This article describes several common administration issues and examines ways you can address these issues through planning and ongoing communication with your actuary, to further ensure the success of your plan.

## Sharing the Ongoing Cost of the Plan

If your organization has multiple owner-employees and other staff, you and your fellow partners likely have a variety of business expenses that you share on a pro rata basis, a percentage ownership basis, or another basis that rationally spreads the business expenses across your partners. There are several significant decisions to address with your cash balance plan that you may want to handle differently than other business expenses:

- Should partners agree to fund more than the minimum contributions to the plan early on to accelerate tax deductions, create contribution flexibility, and for other planning reasons?
- How will partners share the contribution costs for non-partners participating in the cash balance plan?
- If the cash balance plan is part of the strategy for partner succession, how does this affect the contribution and cost-sharing policies?
- How will partners share the cost (or savings) on contributions when investment returns vary from the stated cash balance account investment return, and terminating participants leave with unvested cash balance benefits?
- How will the partners share the administrative cost to maintain the plan?

Many ownership groups view the cash balance plan as a form of deferred compensation for themselves (i.e. 'my money'). With this mindset, it may be appropriate for partners to share the non-partner contributions and administrative costs of the plan based on their annual contribution to the plan. However, the partner group should discuss the cash balance design, contributions, and the general expense sharing approach as a whole to ensure that partners understand the potential variations expected in sharing contributions and costs. Also, given the concerns that most partner groups have around investment volatility, we find that many plan sponsors establish a conservative investment policy to minimize the deviation of required contributions from participants' cash balance account growth.

As you discuss your approach to sharing costs and contributions in your plan, you should consider potential future events as well. Your decision on sharing the contributions and administrative cost of the plan will establish the precedent for future event-driven decisions as your business evolves. The following are some common future events that should be considered when making your partner contribution and cost-sharing decisions:

- Do you have any employees that you expect to become partners in the next 5-10 years?
- Are any current partners expected to retire in the next 5-10 years? If so, are those partners expected to pay their share of the annual cost if they retire mid-year?
- What happens if a partner leaves and the plan is overfunded or underfunded?
- What is your expected time horizon for the plan? Is it 5-10 years, or longer?
- When the plan eventually terminates, how will any funding shortfall or one-time expense be shared among the partners?

*The bottom line:* Either your entire partner group or a designated committee should discuss these general and event-driven issues with your actuary and investment advisor in order to develop a plan-oriented funding policy and investment policy. Once that is in place, you should consider developing a documented contribution and cost-sharing policy among your partners.

## Addressing Plan Issues Arising from Workforce Changes

As your business evolves, you'll likely have new employees and new partners, as well as turnover and retirements among existing employees. Any changes among your rank-and-file employee group, your highly compensated employee group, or your ownership group can trigger one or more of the following issues:

- Nondiscrimination testing problems
- PBGC coverage and associated premiums
- Lump sum distribution complications, if the plan is underfunded or overfunded

*The bottom line:* As your workforce changes, alert your actuary to these changes as soon as possible. Ask that they review your plan for any potential issues and advise you of any options to consider. If decisions are needed, a quick review by your actuary ensures that you have maximized the time to decide your approach before any compliance deadlines.

## Finishing Well – The Decision to Strategically Terminate the Plan

As your business evolves and your cash balance plan matures, your objectives for your cash balance plan may change as well. New objectives such as:

- A desire to redesign the plan following significant growth, retirement of several partners, or a merger or acquisition;
- Cash balance accounts and plan assets becoming significant, and the employer desires to limit risks associated with guaranteeing the interest crediting rate on larger balances; and
- Partners wanting more control over the investment of their cash balance account, wishing to transfer their current cash balance account to an IRA or the 401(k) plan

can be trigger points to strategically terminate the current cash balance plan. It is also the time to consider whether to immediately establish a new, redesigned cash balance plan to fit the current workforce and ownership group. There are IRS regulatory and other requirements to consider, so the first steps in your decision to terminate should be discussions with your actuary and other advisors to determine if your plan is ready for a strategic termination.

## In Perspective

We know that the only constant in business is change. With a well-designed cash balance plan, any issues you may face as a result of change in your business can be managed effectively. Effective management means thorough planning on your funding, investment, and cost-sharing policies, along with ongoing review and discussions with your actuary and other advisors annually and as events occur.

Questions? Contact the Findley consultant you normally work with or contact *Tom Swain* at *tom.swain@findley.com*, 615.665.5319.