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Cash-Balance Plans Appeal to Small Firms

By JILIAN MINCER

Cash-balance pension plans are generating new interest among smaller businesses and professional groups.

While large companies became more interested in the hybrid plans after the Pension Protection Act of 2006 clarified their legality, professional practices and small-business owners are discovering that these plans can be a great way to cut taxes and boost retirement savings—especially after last year's market losses.

"So many people, including highly compensated individuals, have lost 25%, 30% or more of their retirement plans, and they're trying to figure out what to do," says Barry Young, a consulting actuary at the Principal.

Cash-balance plans are a type of defined-benefit plan governed by the Employee Retirement Income Security Act. They can be effective for high earners, particularly professionals, because they allow far more pretax dollars to be socked away than a traditional 401(k) or profit-sharing plan.

"They allow you to turbo-charge what you're putting away," says Matthew Tuttle, a financial adviser in Stamford, Conn.

Larger Sums

In 2009, the maximum 401(k) contribution for someone under 50 is $16,500; it's $49,000 for a profit-sharing plan. In contrast, someone using a cash-balance plan could "save larger sums in a relatively short period of time," says Jamie Ohl, senior vice president of the Hartford's retirement plans group, which launched the Aviator Cash Balance Program on Tuesday.

The program, she says, is designed to complement a 401(k) plan and to enable a small business owner or professional to fund a plan that generates as much as $195,000 in annual retirement income.

That means people 52 or older could save in excess of $100,000 in addition to their 401(k) savings and their profit-sharing.

That has special appeal for small-business owners, who typically wait until the last minute to start saving for retirement because they've been busy running the company and plowing extra profits back into the business. "They typically don't start looking at retirement savings until they're five to 10 years out," says Ms. Ohl.

Another potential benefit of the cash-balance plan is the tax savings for the company.

Clients aren't necessarily thinking about retirement savings, says Mr. Tuttle, "but they are thinking about how can I cut my tax bill." The contributions cut the business's tax bill because it is deductible.

Added Protection

Wade Behlen, director of retirement benefits at Feltz WealthPLAN in Omaha, notes that doctors and other professionals vulnerable to lawsuits like cash balance plans because they are protected from creditors.

The plans aren't for everyone. While a 401(k) contribution can be changed from year to year with a click of a computer, amending a defined contribution plan is more difficult. So those who use them need to have a predictable yearly income.

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