**What is a Cash-Balance Plan:** A cash balance plan is a retirement plan specifically for small business owners, doctors, lawyers, and other high-income professionals. It allows for the highest tax-deductible contribution limits in the market, and the older you get, the higher those limits go. You then get an option for guaranteed income for life or a one time, lump payout.

**Why this matters:** The IRS has a number of special types of retirement plans they offer people to use that come with tax-advantages. Usually, this is pre-tax contributions (also called, tax deferred). In essence, this means that the IRS encourages people to put money towards their retirement by offering them the ability to not pay taxes on what they put into retirement until later. For some individuals, this is a major advantage because they will pay higher taxes while working and lower taxes in retirement (this is not always true). Additionally, because the way the IRS taxes individuals and businesses, if they are able to shift the funds to retirement, the IRS rewards them significantly with a reduction in taxes. Most of the time this is because an individual or business will pay the highest tax rate on the highest amount of their income. For example, in the US, they will pay 24% on income between $86k and $164k, and 32% on every dollar they earn over $164k. By doing these tax-advantaged plans now, the IRS is encouraging them to put money towards their retirement, and it significantly decreases their tax burden for today. For small businesses, this is even more true since their tax rate is 40%. So, the IRS has put together a number of tax-advantaged accounts to encourage people putting money towards retirement (the funds will get taxed in retirement, rather than today). For most people, they are familiar with the IRA, 401(k), and Roth IRA. There is also something called a SEP (Simplified Employee Pension Plan). All of these have limits on how much you can put towards them that for a successful business owner are very small. The IRAs have a limit of $7,000 annually and the 401(k)’s limit is $20,500. The SEP can get as high as $61k. Which means if they want to put more towards retirement, they don’t get the tax-advantages offered by the IRS. However, what most doctors/lawyers/business owners don’t realize is that these aren’t their only options. The cash-balance plans have a much higher contribution limit (as high as $417k annually) and are also given tax-advantage status by the IRS. Thus, it allows them to significantly decrease the taxes they have to pay (by up to 40% of what they contribute) and helps them build towards retirement. For a doctor who is eligible for the full $417k, they could save as much as $100k in taxes each year. This is huge for them. It also allows them to secure their retirement, and make sure they have enough built up to retire on. It shifts the tax burden from the business to the retirement stage (which is significantly to their advantage), and gives them guaranteed income for life. Additionally, these plans aren’t based on the stock market, so if there is a stock market crash, recession, or another pandemic, their retirement is safe. All the other plans (IRAs, 401k, etc.) are market dependent. When the stock market crashed in ’01, ’08, ’20, people lost up to 40% of their retirement savings in a month. Imagine saving up your whole life to retire, and then, a year before you’re going to retire, 40% of your savings are gone. It was rough.

One other note about these plans, the amount they can contribute is weighted for older clients. E.g. the older they are, the more they can put towards retirement. This is huge for doctors who are behind in their retirement savings. They can in essence completely catch up in less than a decade. All of it as a tax-deductible option. This is a major client type that we focus on. Most of these people think they’re out of luck, but we can help them.

Some of the high level benefits w/ explanation:

* Top-Line tax-deductible contributions. Reduce taxes today by as much as 40% of what you contribute to your retirement plan. Tax savings as high as $100k annually. Average is probably around $40k. Ask any CPA about the power of top-line tax deductible contributions, and they’ll tell you how powerful they are. Put money towards your retirement while saving money on taxes today.
* Guaranteed Income for Life – These plans allow you to set it up to where you can have guaranteed income for life, no matter how long you live. A lot of retirees are worried about if they saved enough for how long they’re going to live. If you retire at 65 and live to 85, that’s 20 years. Will you have enough money? What if you live to 95 or 100 or 105? With these plans, it doesn’t matter how long you live. You’ll get the same amount of money every year, no matter what. For most it’s ~$120k a year. With some clients, we’ll talk about part of what we do is we help them eliminate 20 years of stress. If they’re 45 and want to retire at 65, they spend those 20years stressing about whether they have enough money, they invested it in the right thing, is the market going to crash, will there be another recession right before they retire, how long should they keep their money in the stock market, etc. Or they can do these plans, and all those questions are answered, and the question of whether they will have enough income in retirement is answered with a resounding “Yes!”
* Plans are not market dependent. As mentioned earlier, these plans don’t rely on the stock market having the same rate of return as it has in the past or you retiring before a crash or recession happens or suddenly having to work a few extra years because a pandemic cut your retirement savings in half.

Behind in Retirement: This can be it’s own class (as explained above) and probably worth a short blurb.