SOLARUS / BUSINESS OWNER SERIES

Beyond the 401(k)

A business owner's guide to cash balance planning



Understand the opportunity, the commitments and the review that comes first.

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01 | A different kind of retirement plan

A cash balance plan is a **defined benefit pension plan**. It expresses a participant's benefit as a hypothetical account balance, which can make the statement look familiar to someone used to an individual retirement account. But the accounting is different. The hypothetical balance is a record of the benefit under the plan formula, not a separate investment account owned and managed by that participant. [2]

Why owners explore it

A growing business can change what its owner wants from retirement planning. An existing 401(k) may still be useful, yet the owner may want to explore whether another employer-sponsored plan belongs alongside it.

A cash balance plan is one possibility. It can support a defined retirement benefit and may permit greater retirement funding than a defined contribution plan alone. That opportunity comes with employer obligations, employee considerations and professional administration. The question is not simply "How much could I contribute?" It is "Would this arrangement serve the business and its participants over time?" [1]

This guide explains the mechanics without contribution promises or tax-savings projections. Use it to prepare for a feasibility discussion, not to decide on a plan by yourself.

02 | Two records, different purposes

The participant's benefit record

In a typical design, the record receives two kinds of credits:

• **Pay credit:** An amount determined under the plan's formula, often related to compensation.

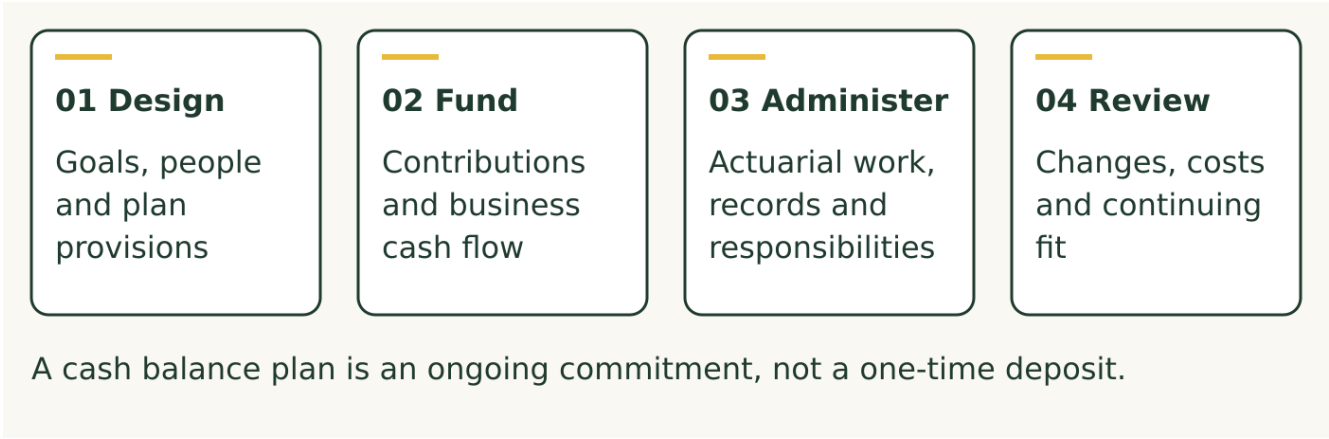
• **Interest credit:** An adjustment using the method specified in the plan. The permitted method can be fixed or variable; it does not promise the same return from the investment portfolio. [2][3]

The actual plan assets

Separately, the employer contributes money to fund the plan. The plan holds and invests those assets to support its benefit obligations. A participant's benefit credits and the employer's required cash contribution are therefore not interchangeable figures.

Think of the benefit record as **what the formula says is being earned** and the asset pool as **the resources supporting the obligation**. An actuary evaluates funding; the owner should not estimate the required contribution by adding up statement credits. [4]

This distinction is the foundation of a useful review. Ask to see both the proposed benefit design and the funding analysis, rather than only an attractive owner-benefit illustration.



03 | What the business takes on

Funding is an ongoing responsibility

An actuary assesses a defined benefit plan each year and calculates its required minimum contribution. Employer contributions can change from year to year. A slow business year does not automatically remove the plan's funding obligation. [4]

The employer generally bears investment risk in a typical cash balance arrangement, rather than each participant bearing the direct gains and losses of an individual investment account. [5] Ask how the proposed investment approach and interest-crediting method work together, including what less favorable investment results could mean for future funding.

Employees belong in the design

A cash balance plan is an employee retirement benefit, not merely an owner's tax account. Eligibility, coverage and nondiscrimination requirements must be evaluated. Request a review of the whole workforce and related businesses rather than assuming that an owner's desired benefit determines everyone else's treatment.

Administration continues after setup

Defined benefit plans require actuarial work and annual reporting and are generally more complex and costly than other plan types. [1] Obtain a written schedule of setup and continuing fees, responsibilities and deliverables. Identify who will handle records, calculations, filings and participant communications.

Changes need planning too

A possible sale, a partner's departure or a staffing change belongs in the initial discussion. The plan cannot simply erase benefits already earned because circumstances change. [3] Ask what changing or ending the proposed arrangement would require before establishing it.

04 | Compare the whole arrangement

Alongside a 401(k), not automatically instead of it

A business with a defined benefit plan can also have other retirement plans. [1] A review can therefore consider whether a cash balance plan should accompany an existing 401(k), rather than treating the choice as either one or the other.

Ask the specialists to evaluate the combined arrangement: owner and employee benefits, business cash requirements, administration and tax treatment. Do not assume separate plans can be designed independently or that adding one automatically improves the existing setup.

Factors that make a discussion useful

A feasibility conversation is especially useful when the business has a clear retirement objective, can discuss future cash commitments realistically and is willing to evaluate employee benefits as part of the decision. These are discussion factors, not eligibility rules.

Proceed more cautiously when profits are unpredictable, a sale is imminent, operating reserves are stretched or the objective is only a one-year deduction. Those facts do not produce an automatic answer; they change what the analysis must test.

An illustrative business decision

Consider an owner-led consulting firm with an existing 401(k). The owner wants to strengthen retirement funding while continuing to invest in the team. Instead of requesting the largest possible contribution, the owner asks for alternative designs and a less-profitable-year scenario.

The professionals compare the total employer commitment, employee benefits, administration and coordination with the current plan. The result might support further design work, a smaller approach or no additional plan. The value is a decision informed by the whole business, not a predetermined sale.

This is a fictional, nonnumeric illustration, not a Solarus client result or a projection.

05 | Prepare for a useful feasibility review

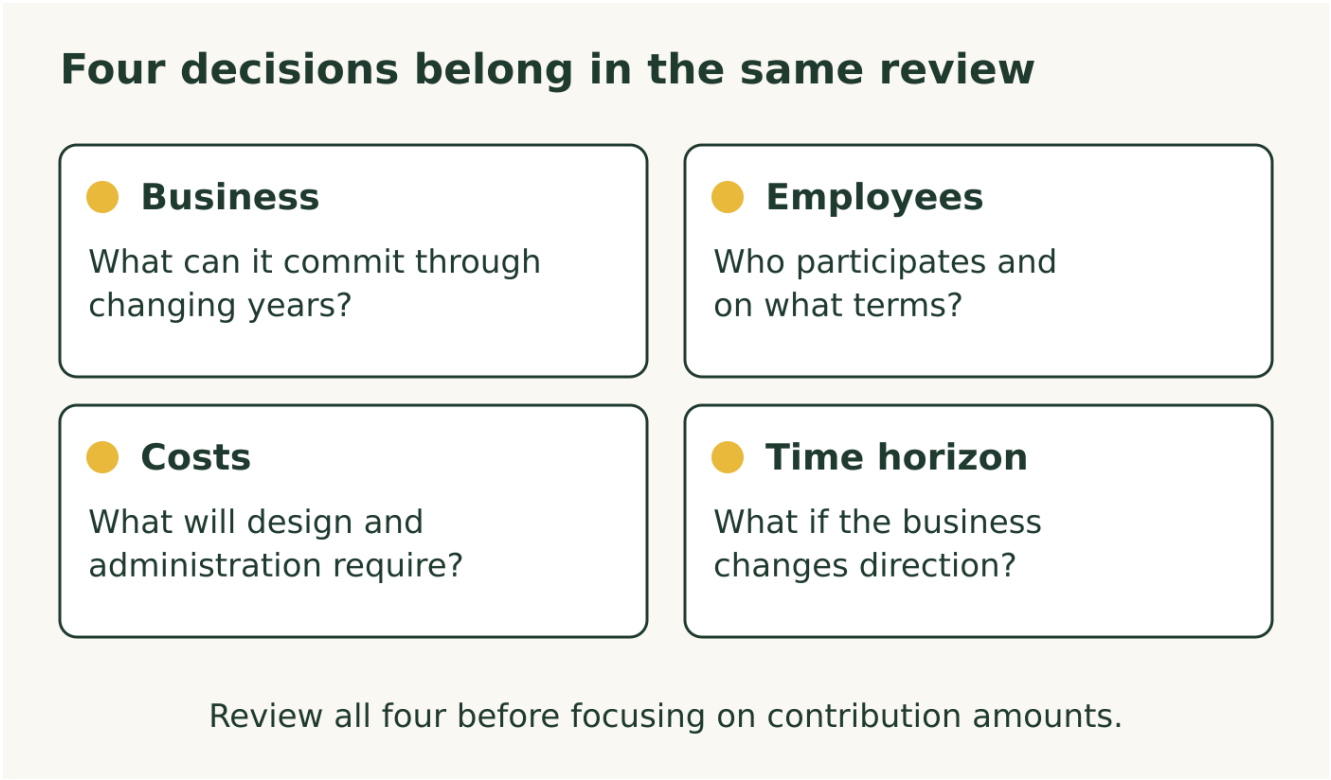
A practical review should turn a broad idea into a documented decision. Request these four outputs:

1. **A shared brief.** Record the owner's retirement goals, business outlook, workforce and existing arrangements. Agree on what the review will and will not cover.

2. **Comparable options.** Ask for proposed benefits, funding expectations, employee implications and fees for each option, including keeping the current arrangement.

3. **A downside discussion.** Explore lower profits, investment shortfalls and anticipated business changes. Identify assumptions and what would need reassessment.

4. **A decision and responsibilities.** Record whether to investigate further, who must review the tax and plan details, and which dates actually apply. Do not infer deadlines from an advertisement.



Your meeting-preparation worksheet

Complete only what you are comfortable discussing. Keep detailed payroll and financial records out of ordinary email and public forms.

The retirement goal I want to address:

_____

Existing plans and business changes to review:

_____

Cash commitments the business must protect:

_____

My question about employee benefits or ongoing costs:

_____

The evidence I need before deciding:

_____

Next action / responsible person / verified date:

_____

Start with understanding

Ask Solarus about an introductory cash balance planning conversation. Bring your goal, your questions and an outline of the business situation. Ask who will coordinate the plan professional, actuary, CPA and any legal review that your circumstances require.

You do not need to complete the longer Smart Money Strategy assessment to use this guide or request a conversation. A useful first meeting can establish what needs analysis without committing you to a plan.

Contact Solarus to discuss your next step

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solarusinsuranceagency.com/ContactUs.htm

Terms in plain English

Defined benefit plan: A retirement plan whose benefit is determined by a specified formula.

Hypothetical account: The bookkeeping record used to express a cash balance benefit, rather than a participant-directed investment account.

Actuary: The specialist who evaluates plan funding and required contributions.

Feasibility review: An analysis of whether a proposed arrangement warrants further consideration. It is not, by itself, a promise of savings or regulatory approval.

Sources and important information

[1] IRS, Defined benefit plan.

[2] U.S. Department of Labor, Cash Balance Pension Plans.

[3] IRS, How to change interest crediting rates in a cash balance plan.

[4] IRS, Choosing a Defined Benefit Plan.

[5] U.S. Department of Labor, Cash Balance Pension Plan FAQs.

Educational information only. This guide does not determine suitability, eligibility, contribution amounts or tax deductions and is not financial, tax, legal, investment or actuarial advice. Benefits, funding and tax treatment depend on the plan and individual business facts. Obtain qualified professional review before acting.