(Continued from previous column)

guarantee on a fixed rate instrument or a variable rate tied to the yield on the corporate bond index, or a blend of the fixed rate and corporate bond index.

The employee receives an annual statement with updates on the value of his/her Cash Balance plan.

Most Attractive Feature of Cash Balance Plans

Unlike other defined-contribution plans, the value of Cash Balance Plans typically never goes down. Because of the market issues during the ten years prior to 2009, many employees will feel more secure about the low risk factor in these plans.

Funding Status Requirements

Participants in Cash Balance Plans should be aware of the plan's funding requirements and whether the plan has the money to meet its obligations; the experts call this the plan's funded status. This is true for all defined benefit plans. Plans that are fully funded can pay off 100% of the money owed participants.

By law, these plans must be fully funded over a seven-year period. It is typical for participants to become fully vested in these plans after three years of employment.

Contribution rates

As with defined-benefit plans, the employer contributes money into the plan on the worker's behalf – usually from 2% to 5% of the employee's salary though in some cases the percent is tiered (may be based on employee classes and/or years of employment) and maybe be higher.

401(k) plans and cash-balance plans

If you're lucky enough to have a 401(k) plan and a Cash Balance Plan, you might want to consider investing your 401(k) a bit differently than if you just had a 401(k) since money in the cash-balance plan is a fixed-income security.

Example: You have $100,000 in your cash-balance plan and your 401(k) plan, and your investment policy statement suggests an asset allocation of 50% stocks and 50% bonds. At that point, you might consider more aggressive investment strategies that you would normally not want to chance. Always consider the value of your Social Security benefits, taxable accounts, and all variables before deciding how to divvy up your assets. Having money in a Cash Balance Plan is fixed income, which brings about peace of mind.

Distributions

Having three options allows all kinds of flexibility in taking distributions. Two of those options – the single life annuity and the joint-and-survivor annuity – will appeal to those who fear outliving their assets or for those who don't want to bear the investment risk.

The annuities provided by the plan don't have any of the expenses of annuities purchased in the open market. Instead, these annuities are created by the employer plan and the payouts are determined by government laws and rules.

Great for small- to mid-sized firms

Small- to-mid-sized firms that offer 401(k) plans but have reached the legal limits to which highly compensated executives or owners can contribute should consider adding a Cash Balance Plan. This way they can provide a larger combined pension benefit to their top employees.

Some employers abused Cash Balance Plans in age-discrimination practices, which brought some negative perceptions about these plans.

Experts today agree that "the bad practices are behind us" and if "Cash Balance Plan" isn't a household phrase just yet, it will be.

Let Pension Parameters Add Cash Balance Plans to your Retirement Portfolio.

CONSIDER LESSER-KNOWN AVAILABLE PROGRAMS PROVIDING UNIQUE ADVANTAGES TO SMALL-AND-MEDIUM SIZE BUSINESSES:

HEALTH REIMBURSEMENT ARRANGEMENTS AND CASH BALANCE PLANS

While these two programs are unrelated, they are not always the most obvious choices for small businesses. It is our pleasure at Pension Parameters to offer your business all solutions that make sense in today's economic climate.

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PENSION PARAMETERS OFFERS: HEALTH REIMBURSEMENT ARRANGEMENTS (HRA) & CASH BALANCE PLANS (CBP)

LESSER-KNOWN AVAILABLE PROGRAMS IDEAL FOR SMBs

HEALTH REIMBURSEMENT ARRANGEMENTS

ADDING VALUE TO YOUR EMPLOYEES' HEALTH BENEFITS– FOR LESS

Health Reimbursement Arrangements (HRAs) are employer-funded medical expense reimbursement arrangements for medical care that allow participants to carry over unused contributions from year to year. They offset the continually rising costs of healthcare premiums so that the employee gets the best possible health benefits with the least cost to the employer. They are also excellent deductions for small businesses that want to offer healthcare benefits but need to cut costs.

HRAs are similar to Flexible Spending Accounts (FSA) and Health Spending Accounts (HSA), but they offer employers greater flexibility in plan design than available elsewhere and are not subject to the same savings limitations. HRAs can be used to supplement FSA and HSA plans or offered as a standalone benefit. With an HRA, employers fund individual reimbursement accounts for their employees and define what those funds can be used for – i.e., specified out-of-pocket expenses such as deductibles and co-pays for medical expenses.

The employer elects how much the company contributes each year, and the accounts are excluded from an employee's income.

AN EXCELLENT HEALTHCARE PROGRAM FOR SMALL BUSINESSES TRYING TO CUT OVERHEAD, YET OFFER BENEFITS

HRAs became part of tax law more than 60 years ago. Yet many sole proprietors have under-utilized these as a way of cutting overhead. Even though the "sole proprietor" is ineligible, his or her business will benefit from the HRA. Small businesses that are trying to reduce costs, especially those tied to medical costs, are prime candidates for HRAs.

EXCELLENT VEHICLE FOR FAMILIES OF SOLE PRORIETORS

An employer can benefit if their spouses, parents and/or children are employed by the business (and receive a W2). This can save the family of a sole proprietor many thousands of dollars in healthcare expenses a year. An exception is if the family members are more than 2 percent shareholders in the business.

WHO IS ELIGIBLE FOR HRA PROGRAMS?

- Current or former employees of a company
- Their spouses and dependents (with exceptions).
- Spouses and dependents of deceased employees.
- "Leased" employees
- Those who are "self-employed" are ineligible and "highly-compensated" employees have strict limitations. Partnerships, LLCs and Subchapter S corporations must generally limit participation to employees, though their families can benefit (see above).

HOW AN HRA WORKS

The employer offers his/her employees an HRA account with a credit balance, which can be rolled over from year to year like a savings account. The employer decides if the funds are rolled from year to year and how much rolls over (which can be either a flat amount or a percentage).

Employees are reimbursed tax free for qualified medical expenses up to a maximum dollar amount for a coverage period, according to IRS rules. HRAs reimburse only those items (copays, coinsurance, deductibles and services) agreed to by the employer that are not covered by the company's selected standard insurance plan. HRA plan documents must show exactly what qualifies for a claim at the inception of the plan. Arrangements (medical services, dental services, co-pays, coinsurance, deductibles, and participation) vary from plan to plan, and an employer may have multiple plans in place, to allow the greatest flexibility.

Employers are not required to prepay into a fund for reimbursements. The employer reimburses employee claims as they occur, provided it is within the annual maximum. The yearly benefit as stated in the plan may be changed for each plan year.

ADVANTAGES OF HRAs FOR EMPLOYEES

- Contributions that employers make can be excluded from employees' gross income.
- Reimbursements may be tax free if the employee pays qualified medical expenses.
- Unused funds in the HRA can be rolled into future years for reimbursement.
- HRAs may be offered in conjunction with other employer-provided health benefits including Flexible Spending Accounts (FSAs).
- Employees can be reimbursed for a healthcare plan that meets their families' specific needs, as opposed to a standard company plan.

HRA plans have strict compliance rules and provisions, including COBRA continuation coverage requirements, ERISA and HIPAA. They are subject to Medicare Secondary Payer (MSP) mandatory reporting requirements, and with those, stiff penalties for failure to comply.

Rules can be perceived by employees as difficult, which is why Pension Parameters is an ideal advisor for your HRA. We will work with your company to be certain that as much detail is spelled out at the onset as possible and employees understand the value of the benefit.

CASH BALANCE PLANS (CBPs)

A Cash Balance Plan is a defined benefit plan that guarantees all participants a fixed amount of money when they retire. Establishing a Cash Balance Plan is ideal for small-to-mid-size companies that have existing 401(k) plans with highly compensated executive/owner participants reaching the legal limits. By adding a CBP, a firm will provide a greater retirement benefit for its employees.

The popularity of Cash Balance Plans is growing – and quickly: 259% since 2001.

Though small by comparison to other types of plans, the number of participants – and assets – in Cash Balance Plans is significant. There are 10.5 million workers in such plans, with $777 billion in assets. By contrast, there are 42 million participants in defined-benefit plans, with $2.6 trillion in assets, and 81 million participants in defined-contribution plans with $3.4 trillion.

How this type of Defined Benefit Plan Works

Cash Balance Plans guarantee a certain amount of money at normal retirement age. At that point, the participant has three distribution options: a lump sum, a single-life annuity or a joint-and-survivor annuity.

Cash Balance Plans are backed by the Pension Benefit Guaranty Corporation. If the participant's employer goes out of business, the PBGC will still pay the participant his or her guaranteed pension, up to the legal limits.

Interest credits

And as with traditional defined-benefit plans, the employer – not the employee – bears the investment risk. The employer invest the money on behalf of the participant in their choice of stocks, bonds, and other instruments. The employer is required to guarantee a rate less than or equal to 5%. The employer can base this

(Flip over to continue)