

CASE STUDY

Cash balance plan for succession planning

How a cash balance plan saved a business over \$550,000.

Background

A local family-owned company was undergoing a business succession plan with our team to transition ownership from a father to his daughter. At the onset of this transition, we advised the family to work with our tax and financial planning professionals to set up a buy/sell arrangement and convert the business into a new company to maximize financial benefits for both the buyer and seller.

The process

Noticing that the client had a successful year and a large influx in revenue, our experts reviewed the tax impact of the business' cash flow. As we knew that a cash balance plan could be utilized for the deferral of this cash flow, we wanted to look deeper into how this strategy could positively impact the business. We realized the client could see a huge tax savings by converting the business to a partnership while establishing a new and consistent cash flow to the partnership. Our financial advisors also reviewed the business' previous retirement plan method, which consisted of a 401(k) and profit sharing plans. Because of this, we were able to layer a cash balance plan onto the other plans and incorporate proceeds from the succession plan to offset taxes and provide for future income.

The outcome

The company opted to establish a cash balance plan in addition to the profit sharing and 401(k) plans. While still supporting participant contributions, the client was able to keep the total contributions in line with the previous plans while the owner and partners were able to save substantially more than the 401(k) and profit sharing plans allowed. We further showed the client that once they built a cash balance plan, they could use it as a buyout vehicle to keep contributing for retirees (in this case, the father who was passing the business onto his daughter) to utilize. This offered an opportunity to fund the plan for as long as the client wished, while keeping it in the family.

As a result, the business and its owners saw a tax savings of over \$550,000.

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