



CASH BALANCE PLANS



Retirement Savings for Successful Business Owners

 **TRANSAMERICA**
INSURANCE & INVESTMENT GROUP



Cash Balance Plans

- *Maximize retirement savings*
- *Significant tax deductions*
- *Flexible plan design*

Jonathan, Sandra, Alice and David are partners of a successful medical practice firm JS & Associates. JS & Associates has 11 full-time employees in addition to the four doctors. Jonathan and Sandra have been partners for many years while Alice and David are newer to the firm and have just begun buying into the practice as partners. All four of the physicians receive annual W-2 income of \$245,000 with additional K-1 income from their partnership.

Jonathan, aged 67, and Sandra, aged 68, would both like to increase the amount they contribute towards their retirement. Jonathan doesn't feel he has done a good enough job over the years saving for his own retirement and is looking for ways to make significant tax-deductible contributions to increase his retirement nest egg. Sandra, on the other hand, feels that although she needs to increase her retirement savings, she doesn't need to contribute as much as Jonathan. David, 46, and Alice, 37, would both like to save more for their retirement but have other financial obligations as well, such as mortgage payments, school loans and saving for children's college education. Due to these other financial commitments, David and Alice cannot afford to contribute as much to their retirement savings as Jonathan and Sandra.

Because they are in such different stages of life, the partners are looking for a qualified retirement plan with the flexibility that would fit the unique retirement saving needs of each partner.

The doctors also understand that contributions must be made for their rest of their full-time employees since a qualified plan cannot discriminate in favor of the highly compensated. While the partners like the idea of providing a retirement benefit for their employees, they would prefer to keep the costs at a minimum.

After talking with their financial professionals about their unique situation, it was suggested that a cash balance plan might be the best way to address their various needs. The partners, along with their financial professionals, work with a Third Party Administrator who designs the plan, determines the amount the partners can contribute towards the plan as well as calculating the retirement benefit they can expect to receive from the plan.

What is a Cash Balance Plan?

- **“Hybrid” defined benefit plan:** A cash balance plan is sometimes referred to as a hybrid defined benefit plan because it acts like both a defined benefit and defined contribution plan.
- **Defined benefit plan:** Qualified retirement plan in which a participant is promised a specified future benefit, typically in the form of a monthly pension.
- **Defined contribution plan:** Qualified retirement plan in which a participant’s retirement benefit is based upon the value of his/her individual account.

Like a defined contribution plan, the benefits of the cash balance plan are based on and communicated to participants in the form of an account balance, referred to as a hypothetical account. Like a defined benefit plan, the cash balance plan provides participants with a definite future retirement income based on plan guarantees of account value and annuity rates.

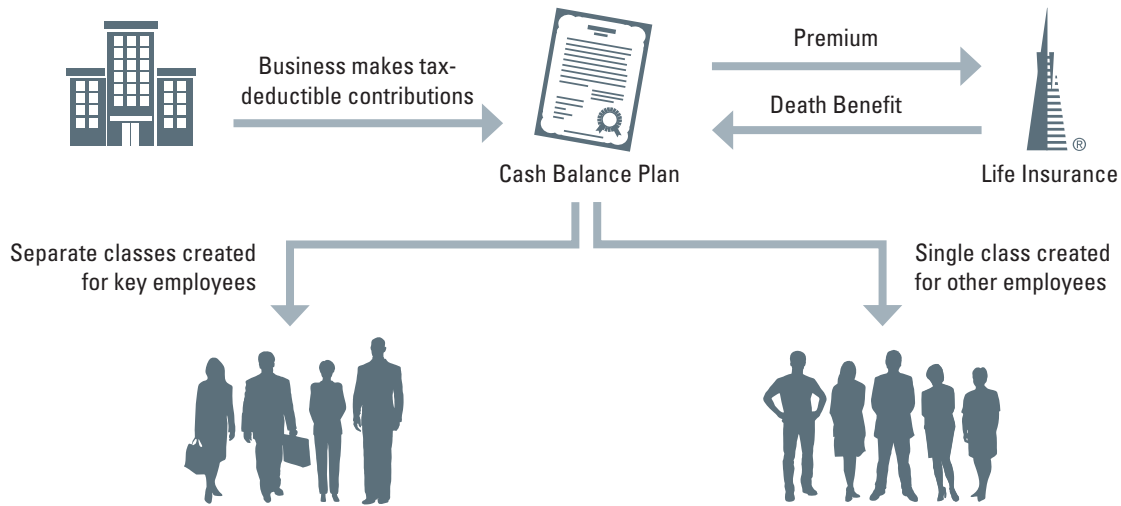
What are the benefits of an Insured Cash Balance Plan?

- **Large tax-deductible contributions:** Like traditional defined benefit plans, cash balance plans offer business owners the opportunity to make significant tax-deductible retirement contributions.



- **Flexibility for business owners:** Cash balance plans offer businesses with multiple owners the ability to tailor retirement contributions based upon the unique situation of each owner.
- **Easier to understand:** Because benefits are communicated as an account balance and not an income stream, cash balance plans are easier to understand.
- **Family protection:** When a cash balance plan, like other defined benefit plans, provides incidental life insurance protection, there is a self-completing element to the plan. If the insured participant dies, the death benefit can replace his/her current earnings and offer valuable protection to the family.

How does the Insured Cash Balance Plan Work for JS & Associates?



Step 1: JS & Associates makes tax-deductible contributions to the cash balance plan on behalf of the partners and all eligible full-time employees.

Step 2: Work with the TPA and qualified advisors to design the plan. Separate classes for the partners and other employees may be possible. Reasonable classifications could include: job categories, nature of compensation, geographic location, and bona fide business criteria.* The creation of separate classes can provide optimal flexibility within the plan to customize the retirement benefits for each identifiable participant class, resulting in a significant portion of the total

plan's contributions going towards the partners. An example with separate classes for partners is shown below.**

Step 3: A portion of the plan's assets will be invested in a diversified portfolio.

Step 4: The cash balance plan will also use a portion of its assets to purchase a life insurance policy, insuring the life of each participant. The plan will be the owner and beneficiary of the policies.

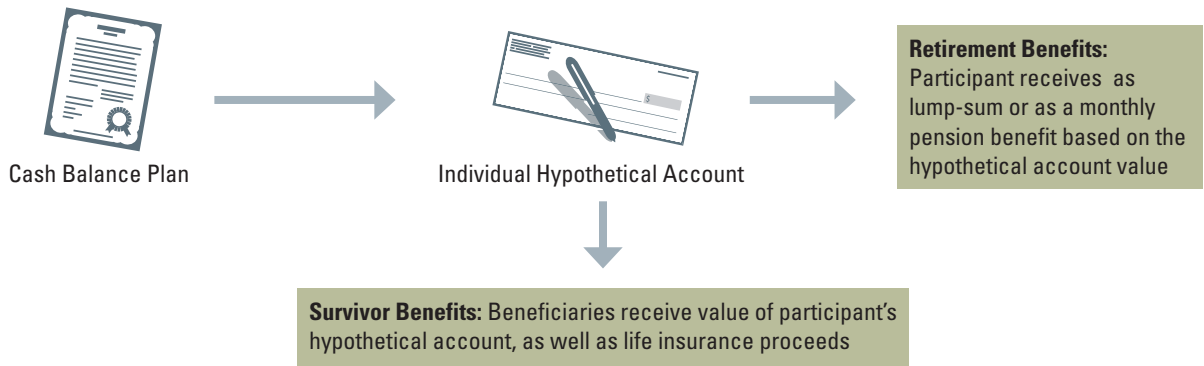
*IRS Reg §1.410(b)-4.

**Qualified plan design is complex. You must consult with and rely on qualified advisors. Neither Transamerica nor its agents provide plan design services.

Results

Participants	Current Contribution	Anticipated Lump-Sum Benefit at Retirement	Anticipated Monthly Benefit at Retirement	Death Benefit	Annual Premium
Jonathan	\$205,810	\$1,285,327	\$11,388	\$1,252,461	\$109,147
Sandra	\$ 89,769	\$ 560,609	\$4,967	\$546,155	\$47,606
Alice	\$ 65,149	\$2,258,425	\$16,351	\$1,087,161	\$33,342
David	\$ 35,463	\$2,258,425	\$16,351	\$802,039	\$16,926
Employees	\$ 72,476			\$1,346,569	\$35,500
Total	\$468,667			\$5,034,385	\$242,521
Partners	\$396,191			\$3,687,816	\$207,021
% of contributions to Partners	84.5%			73.3%	85.4%

Receiving the Benefits from the Cash Balance Plan



Retirement Benefits: Each participant has the option to receive a lump-sum, which can in turn be rolled over to an IRA or another qualified plan.¹ The lump-sum amount is based upon the value of the participant's hypothetical account. Alternatively, a participant could elect to receive the retirement benefit in the form of a monthly pension.

Survivor Benefits: Upon the participant's death, his/her beneficiaries will receive the death benefit of the life insurance policy, of which a portion would be paid out federal income tax-free.² In addition to the life insurance policy, the beneficiaries would also receive the value of the participant's hypothetical account.

¹ Life insurance cannot be owned inside an IRA. Plan must surrender life insurance policy for its cash value before rolling plan assets to IRA. Life insurance can be rolled over to another qualified plan, if the plan document allows for the purchase of life insurance inside that plan.

² Death benefit amount exceeding the policy's cash value will be paid income tax-free, provided the participant included the cost of insurance protection as taxable income. Additionally, cost of insurance protection taxable to the employee may be treated as basis to be recovered tax-free from plan distributions.

What if Life Insurance is Needed in Retirement?

- The plan may distribute the life insurance policy to the employee with the employee paying federal income tax based on the fair market value of the policy.
- The employee or his irrevocable grantor trust may purchase the life insurance policy from the plan. Policy purchase price is based on fair market value of policy.

Mission Accomplished with the Cash Balance Plan

With the design and implementation of the Cash Balance Plan, JS & Associates is able to accomplish a variety of goals such as:

- Significant contributions for retirement savings
- Large income tax deductions
- Minimizing the costs of providing retirement benefits for all of its employees
- Family protection in the event of death
- Guaranteed income in retirement
- Protection of retirement assets from creditors
- Use of pre-tax dollars to cover personal life insurance needs

Qualified Retirement Plan Fact Finder

Please note that Transamerica Life Insurance Company and Transamerica Financial Life Insurance Company representatives will work with a third-party administrator (TPA) specializing in qualified retirement plans to generate a plan proposal.

Name of business: _____

Tax status: C Corp. S Corp. LLC taxed as Corp. LLC taxed as Partnership* Sole Proprietor Partnership

Date business began: _____ Date of incorporation: _____

Tax year end date: _____ State of issue: _____

Approximate contribution desired: _____ (percent of payroll or dollar amount)

Current qualified plan in force? Yes No

Do the business owners have ownership interests in any other firms? Yes No If yes, please supply details on a separate sheet.

First Name	Last Name	Gender	Birth Date	Hire Date	% of Stock Owned	W-2 Compensation	Schedule C or K-1 Income	Annual Hours Worked	Smoker (Yes/No)



Transamerica Life Insurance Company
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AEGON companies

*Single-member LLC is taxed as a sole proprietor for federal income tax purposes.

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