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Cash Balance Plans

What are they?

A cash balance plan is a defined benefit retirement plan that expresses the retirement benefit in terms that are more characteristic of a defined contribution plan. In other words, a cash balance plan communicates the promised benefit to employees as an account balance rather than as an annual amount payable for life.

When does a cash balance plan make sense for me?

- You currently sponsor a 401k for your company and would like to defer more than $73,500 annually or if employer contributions to the plan are greater than employee contributions.
- You are a professional services firm with owners who are 50 or older and maxing out contributions.
- You have an Individual 401(k) and make more than $150,000 annually.

How do they work?

Employees have their "own" account resembling that of a 401(k) or profit sharing plan. This account receives contribution and interest credits each year. The contribution credit is defined in the plan typically as a percentage of pay while the interest credit is either a fixed rate or a variable rate linked to an index.

How much can be contributed annually in a cash balance plan?

Employer contributions are determined by an actuary and specified in the plan document. It can be a percentage of pay or a flat dollar amount.

Annual Contributions and Annual Savings

Age	401(k)/Profit Sharing	Cash Balance	Total	Tax Savings*
60–65	$73,500	$324,000	$397,500	$159,000
55–59	$73,500	$249,000	$322,500	$128,000
50–54	$73,500	$192,000	$265,500	$106,000
45–49	$66,000	$150,000	$216,000	$86,000

*Assuming 40% tax bracket, taxes are deferred.

How is a cash balance plan similar to a defined benefit plan?

- Provides retirement benefits based on a stated formula.
- Actuarial calculation of contributions and certifications.
- Annuity benefit option required.
- Benefits guaranteed by the PBGC.**
- Benefits not affected by investment. Return of the trust.

**In 401(k) plans with more than 25 employees participating.

How is a cash balance plan similar to a defined contribution plan?

- A hypothetical account is created for each 401(k) participant.
- Contribution credits can be tracked directly to the ultimate benefits paid.
- The account balance is portable upon employee separation from service.
- 3-year vesting schedule allowed.