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Cash Balance Plans: What You Need To Know

ERISA

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Recent surveys by the ASPPA College of Pension Actuaries as well as other organizations are showing a large increase in the number of cash balance plans and expect that trend to continue.

WHAT IS A CASH BALANCE PLAN?

A cash balance plan is a defined benefit plan fully funded by the employer with defined contribution characteristics. These plans provide monthly benefits at retirement but they describe the participant's benefit in terms of the value of a hypothetical account for the participant.

WHY CONSIDER A CASH BALANCE PLAN?

A cash balance plan can be a very successful way to provide retirement opportunities to your employees. These plans provide for a larger contribution limit than your normal 401(k) or profit sharing plan and can be combined with a traditional defined contribution plan to increase retirement savings even more. These plans are still beneficial to the plan sponsor as well, since the contributions and expenses made to the plan are tax deductible and are protected from creditors, similar to conventional employee benefit plans. And because the limits for participants are greater in these plans they can provide for a larger tax deduction as well for the employer.

HOW DOES A CASH BALANCE PLAN WORK?

The plan maintains a "hypothetical" account for each participant. Based on the plan document, the account is credited with a specific dollar amount or percentage of pay along with an annual interest credit that is guaranteed by the sponsor. The employer is then required to make contributions to the plan in order to fund those future benefit payments. Those contributions are actuarially determined.

WHO SHOULD CONSIDER A CASH BALANCE PLAN?

If you are a company with any of the following characteristics, you may want to research if a cash balance plan might be right for you:

1. Highly profitable

2. Family business
3. Other closely-held businesses
4. Professional firms
5. Older owners looking to make up for lost retirement savings
5. Looking to enhance benefit packages

Contact us with questions regarding cash balance plans and visit our [Employee Benefit Plan services page](#) to learn about our ERISA services.

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