Cash Balance Plans

2025

TPS GROUP

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How a Cash Balance Plan Works

Each participant has a hypothetical account balance which grows annually in two ways: first, a principal credit, which is a contribution usually defined as a percentage of pay, and second, an interest credit, which can be guaranteed rather than dependent on the plan's investment performance.

A hypothetical account balance is established for each participant, as follows:

Beginning Balance + Principal Credit + Interest Credit = Ending Balance

Employer funded, pooled assets, trustee/advisor directed investments, required annual contributions.

Payable as a lump sum at retirement or termination (annuities also available).

Advantages of a Cash Balance Plan

- Large tax deductions.
- For the company, money contributed to the plan is tax deductible now.
- For participants, taxation on benefits is deferred until received as income.
- Accelerated retirement savings for Owners and Key employees can vary contribution by owner.
- Easy to understand, straight forward hypothetical account balance.
- Employer's liability is easily defined.

Ideal Candidates for a Cash Balance Plan

- Businesses demonstrating consistent cash flow and profits.
- Professional practices such as Doctors, Dentists, Attorneys.
- Family Businesses.
- Sole proprietorships (owners with younger employees, or any age if no employees).
- Partnerships with varying goals and needs among the partners.
- Owners who desire to contribute more than DC plan permits.
- Companies already making a profit-sharing contribution to their staff.

How are Investments Handled?

- **Plan assets are pooled and invested by the trustees usually with an investment manager.**
- **Investment return does not typically affect the amount that is credited to participants' hypothetical account balances.**
- **If the plan's investment earnings exceed the crediting rate, the excess will be used to reduce future employer contributions.**
- **Conversely, if the plan's investment earnings are less than the crediting rate, then future employer contributions will be increased (typically spread over up to fifteen years).**
- **A wide range of investment vehicles can be used by the plan sponsor to achieve the interest crediting rate, which is usually set at 4% or 5%.**

Maximum Contributions

Age	DC Plan 401k / Profit Sharing	DB Plan Cash Balance	DB + DC Plans*
65	$77,500	$336,400	$388,400
60	$77,500	$324,600	$376,600
55	$77,500	$253,000	$305,000
50	$77,500	$197,200	$249,200
45	$70,000	$153,800	$198,300
40	$70,000	$120,000	$164,500
35	$70,000	$ 93,700	$138,200

- When a plan is not covered by the PBGC (such as professional service employers with 25 or fewer employees – i.e. doctors, dentists, attorneys, etc.) then there is a combined plan deduction limit which reduces the DC plan contributions permitted beyond the 401(k) salary deferral amounts. Generally, this limit is 6% of compensation, unless both plans' contributions total less than 31%. Therefore, the combined total may be less.

EXAMPLE

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contributions
				(6% of pay)	(40% of pay)	
Owner	60	$350,000	$31,000	$21,000	$140,000	$192,000
Spouse	55	50,000	31,000	3,000	20,000	54,000
Subtotal		**$400,000**	**$62,000**	**$24,000**	**$160,000**	**$246,000**
				(6% of pay)	(2% of pay)	
Employee 1	40	$50,000	$0	$3,000	$1,000	$4,000
Employee 2	35	40,000	0	2,400	800	3,200
Employee 3	30	30,000	0	1,800	600	2,400
Subtotal		**$120,000**	**$0**	**$7,200**	**$2,400**	**$9,600**
Total		**$520,000**	**$62,000**	**$31,200**	**$162,400**	**$255,600**

Percent of total contributions to owner and spouse (includes 401k):	96.2%

Q & A

Can Cash Balance plans be offered in addition to 401(k) Profit Sharing plans?	• **Answer:** Yes, the employer can offer a combination of qualified retirement plans in order to produce a larger contribution.
What are the distribution options upon retirement or if leaving the employer?	• **Answer:** Any vested account in a Cash Balance Plan can be paid as a lump sum distribution or annuity. Lump sums are usually rolled over to an IRA.
Must everyone participate equally in the Cash Balance plan?	• **Answer:** No. Each participant can have a different contribution level.
Can Cash Balance contributions change?	• **Answer:** Yes, but with restrictions. In addition, a plan can be frozen or terminated.
Is the plan subject to IRS nondiscrimination testing?	• **Answer:** Yes, like any other qualified plan, a Cash Balance Plan is subject to annual nondiscrimination testing.
How do design and administrative costs compare with 401(k) Profit Sharing plans?	• **Answer:** They are higher because the plan is maintained by an actuary who certifies each year that the plan follows the Internal Revenue Code.

Disclaimer

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