

Cash Balance Pension Plans



THE EVOLUTION OF THE PENSION PLAN

What is a Cash Balance Plan?



Significant increase in savings amounts using a Cash Balance Plan.

Without a doubt, 401(k) plans are the cornerstone of retirement planning in America. But as popular as they are, even 401(k) Plans have their limitations. Consider the case of a highly compensated employee who contributes the maximum annual amount to their 401(k).

Thankfully, the employer who wishes to put aside more money for the retirement of these employees can take advantage of something called a “Cash Balance Plan.” The Cash Balance Plan can be used as an additional retirement plan option for companies with high income and consistent profits.

A Cash Balance Plan is essentially a Defined Benefit Plan that has some features that resemble a Defined Contribution Plan. Each participant has a hypothetical account and their retirement income can grow in two different ways. First, the account is credited with contribution credits. And second, the account is guaranteed and not dependent on the plan’s investment performance.

Cash Balance Plans combine the maximum benefit amount that can be provided by a DB Plan with some of the flexibility and portability of 401(k) Profit Sharing Plans.

Key Features:

- Individual hypothetical Accounts
- Interest Credit
- Pooled Account
- Benefits May Be Portable
- Funded by Employer Contributions
- Age-neutral

How Cash Balance Plan Investments are Handled?

The assets of a Cash Balance Plan are pooled and then invested by the trustee or plan’s investment manager. The hypothetical accounts of the participants will be credited with an interest credit that is guaranteed by the plan, regardless of the actual investment performance.

If the plan’s investment earn-

ings exceed the guaranteed rate, the excess can be used to reduce future employer contributions. The account will continue to increase according to the plan’s scheduled allocation dates.

In the event that the plan’s investment earnings are less than the guaranteed rate of interest credits, then employ-

ers must contribute more over time to make up for the short-falls. This “make-up” is typically spread out over a period of seven years.

The plan’s investment performance can have an impact on the amount of future employer contributions required.

CB Advantages:

- LARGER CONTRIBUTIONS
- LARGER TAX DEDUCTIONS
- ACCELERATION OF RETIREMENT SAVINGS
- EASY TO UNDERSTAND
- PORTABLE BENEFITS
- PREDICTABLE COST
- COMPETITIVE ADVANTAGE IN THE WORKPLACE



DOES IT MAKE SENSE FOR YOUR COMPANY?

- WANT MORE THAN \$49,000 CONTRIBUTED
- PROFITABLE COMPANY OF ANY TYPE AND SIZE
- NON-FAMILY CLOSELY HELD BUSINESS
- PROFESSIONAL GROUP
- OLDER OWNERS

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