



# CASH BALANCE PLAN

## MAXIMIZING YOUR RETIREMENT BENEFITS

A Cash Balance Plan is a hybrid retirement plan; it's a defined benefit plan with the flexibility and portability of a defined contribution plan. The defined benefit characteristics allow for larger contributions and tax deductions but still require minimum funding standards and a promise to pay benefits. Like a Defined Contribution plan, benefits are communicated as an annual account value and as a future retirement income payment. This makes the plan easier to understand and appreciate.

## HOW DOES IT WORK?

- **Hypothetical Account:** The firm makes annual contributions to a participant's hypothetical account. In addition, interest is credited on the account.
- **Retirement Benefits:** The hypothetical account balance can be converted into a monthly benefit (annuity) payable at retirement or paid as a lump sum.
- **Pooled Investments:** Trustees make all investment decisions and generally invest in assets that track the plan's stated interest credit.
- **Required Contributions:** Employer contributions are required and the annual amount is determined by an Actuary.
- **Combo Plans:** A Cash Balance plan can be paired with a 401(k) plan to allow for even higher savings.

## HOW SHOULD CONTRIBUTIONS BE INVESTED/MANAGED?

- Participants cannot direct the investments.
- The pooled fund is invested by the Trustees and Investment Advisors.
- The investment strategy for plan assets is to achieve an investment return (net of fees) equivalent to the earnings rate set forth in the plan document.
- Gains (losses) from investments reduce (increase) the Plan Sponsor's contribution.

# CAN A CASH BALANCE PLAN BE COMBINED WITH A 401(k) PROFIT SHARING PLAN?

Yes, to produce larger contributions, especially for Principals and Owners, Cash Balance Plans are usually combined with 401(k) Profit Sharing Plans. The 401(k) Profit Sharing component can also provide flexibility in the combined plan.

This chart highlights potential contributions under a combined 401(k) profit sharing plan and Cash Balance Plan. **Cash Balance Plan Design results in 91% of contributions to Owner.**

Employee	Age	Compensation	Cash Balance Credit	401(k) Deferral	Safe Harbor	Profit Sharing	Total
Owner	55	\$290,000	\$200,000	\$26,000	\$8,700	\$0	\$234,700
Employee 1	25	\$30,000	\$750	\$0	\$900	\$1,200	\$2,850
Employee 2	30	\$35,000	\$875	\$0	\$1,050	\$1,400	\$3,325
Employee 3	35	\$35,000	\$875	\$0	\$1,050	\$1,400	\$3,325
Employee 4	45	\$50,000	\$1,250	\$0	\$1,500	\$2,000	\$4,750
Employee 5	55	\$75,000	\$1,875	\$0	\$2,250	\$3,000	\$7,125
Grand Totals			\$205,625	\$26,000	\$15,450	\$9,000	\$256,075

## IS A CASH BALANCE PLAN RIGHT FOR YOUR CLIENT?

Are they seeking large tax deductible contributions, greater than \$50K? Is it a strong business with a reliable cash flow? Are they prepared to provide employees with at least 5%? Do they currently sponsor a 401(k) or other retirement plan? If you answered YES to any of those questions... contact us to discuss how a Cash Balance Plan can benefit your organization.

**LEARN MORE ABOUT CASH BALANCE PLANS**

Contact us at 603.778.9920 or [compass-cg.com](http://compass-cg.com)