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Cash balance plans (group)

A Cash Balance plan is a defined benefit plan that specifies both the contribution to be credited to each participant and the investment earnings to be credited based on those contributions. Each participant has an account that resembles those in a 401(k) or profit sharing plan.

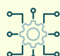
Advantages of a cash balance plan

Tax deductions: Contributions to a cash balance plan are a deductible business expense and offer the largest deductions available under current tax laws.

Investment options: Typically cash balance plan investments are managed to a target interest crediting rate, typically 3%-7%, which is written into the plan document. There are different ways to accomplish this including safe harbor rates (more conservative) or actual rate of return (more moderate). Either way the equity exposure of cash balance plans is rarely over 35%.

Asset protection: Plan assets are protected from creditors under current federal guidelines.

High benefit limits: Cash balance contribution amounts are largely age and income based. There is technically no maximum contribution rate for cash balance plans. Cash balance plans carry a maximum lifetime contribution of $3.4 million, indexed based on mortality rates. Consult a third-party administrator to calculate contribution amounts.



Ability to combine with defined contribution plans: Typically cash balance plans work best when paired with a profit-sharing and 401(k) plan. Combo plans are tested together.

Other cash balance considerations

- Require actuarial projections and administrative maintenance, making these plans more expensive to establish and administer.
- The employer bears 100% of the investment risk, and mandatory annual contributions are subject to market volatility.
- The employer is responsible for investment management, actuarial calculations, and annual contributions.
- Subject to ERISA reporting.
- May require coverage by the Pension Benefit Guaranty Corporation.

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