POLLARD & Associates, Inc.
Consultants, Actuaries and Administrators of Pension and Profit Sharing Plans Since 1970

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Cash Balance Plans

What You Need to Know

What is a Cash Balance Plan (CBP)? A tax qualified defined benefit plan that looks like a “hybrid” between a traditional Defined Benefit Plan and a Defined Contribution Plan. Qualifies for tax deferral and creditor protection under ERISA. 100% Employer funded.

Who is a good candidate for sponsoring a CBP? Small business owners looking for larger tax deductions and/or accelerated retirement savings. Can be coupled with a 401(k) PSP to maximize savings.

- **QBI deduction:** Can be used as a means for owners of “specified service” businesses to qualify for QBI deduction by reducing taxable income below the phase-out threshold ($326K for married filing jointly)

How does a CBP work? The plan maintains one commingled trust account and hypothetical individual accounts are maintained by the plan’s actuary/TPA. Hypothetical accounts grow annually in two ways:

- **A contribution credit.** A percentage of pay or flat dollar amount specified in the plan document. Typically class-based (e.g., higher amount to owners/partners and other targeted groups).
- **An interest credit.** Guaranteed rate of return specified in the plan document. Generally a fixed rate between 4% - 5%. Interest credit is not dependent on plan’s actual investment performance, but the investment portfolio should be structured with the plan’s interest credit rate as an annual target. The Employer ultimately bears the investment risk/reward.

What is the maximum CBP contribution for an individual per year? The annual maximum is income and age-based; the older the participant, the higher the maximum limit *(see chart below)*. Individual must have sufficient high-three year average compensation to substantiate deduction amount.

Is there a cap on how much an individual can accumulate under a CBP? Yes, subject to the IRS 415 limit. Current maximum is $2.9M accumulated over a period of 10 or more years *(see sample accumulation on next page)*.

Can Partners or multiple Shareholders have different contribution amounts? Yes, the contribution credits for Partners/Shareholders do not have to be uniform and can vary based on each individual’s age and deduction goals.

What do staff contributions look like? Minimum staff contributions are generally 5% - 8% of pay, for example:
3% Safe Harbor, 2% Profit Sharing, 2.5% Cash Balance. Non-owner HCEs can be excluded if desired.

What happens at termination of employment or plan termination? Benefits are fully portable and are generally distributed as a lump sum rollover to an IRA account (or taken as a taxable cash distribution). Annuity options must be offered and would be purchased from an outside insurance carrier if elected by a participant.

Maximum Annual CBP Contribution by Age*

Age	CBP Maximum Annual Contribution	Age	CBP Maximum Annual Contribution	Age	CBP Maximum Annual Contribution
30	60,000	44	120,000	58	241,000
31	63,000	45	126,000	59	253,000
32	66,000	46	132,000	60	266,000
33	69,000	47	139,000	61	280,000
34	73,000	48	146,000	62	294,000
35	77,000	49	154,000	63	289,000
36	80,000	50	162,000	64	283,000
37	85,000	51	170,000	65	277,000
38	89,000	52	179,000	66	291,000
39	93,000	53	188,000	67	306,000
40	98,000	54	197,000	68	321,000
41	103,000	55	207,000	69	338,000
42	108,000	56	218,000	70	355,000
43	114,000	57	229,000		

**NRA 62, 19AMT*

Example for Owner/Key Employee: Annual Contributions, CBP Accumulation, Tax Savings (Deferral)

Age	CBP Maximum Annual Contribution	CBP Plan Accumulation*	401(k) / Profit Sharing Maximum Annual Contribution	Total Contributions to Both Plans	Tax Savings (Deferral) (37% Fed; 5.75% State)
52	179,000	179,000	63,500	242,500	103,669
53	188,000	375,950	63,500	251,500	107,516
54	197,000	591,748	63,500	260,500	111,364
55	207,000	828,335	63,500	270,500	115,639
56	218,000	1,087,752	63,500	281,500	120,341
57	229,000	1,371,139	63,500	292,500	125,044
58	241,000	1,680,696	63,500	304,500	130,174
59	253,000	2,017,731	63,500	316,500	135,304
60	266,000	2,384,618	63,500	329,500	140,861
61	280,000	2,783,848	63,500	343,500	146,846
62	25,414	2,948,455	63,500	88,914	38,011

**5% ICR, NRA 62, 19AMT*

Important considerations for Employers:

- Plan must be *maintained for a minimum of 3 years* to meet IRS permanency requirements.
- Steady cash flow is important; plan *must satisfy IRS minimum funding requirements* each year.
- While there is an annual contribution target, there is also an IRS Minimum/Maximum contribution range, which provides for flexibility if a higher/lower than usual deduction is desired for a particular year.
- An *actuary* is required to calculate the IRS minimum contribution each year and to certify the Employer deduction. Actuary's certification is included as an attachment to the Plan's annual Form 5500 filing.
- CBPs are covered under the *Pension Benefit Guarantee Corporation (PBGC)* insurance program except when the plan covers only substantial owners or is sponsored by a professional service corporation with less than 25 employees. Therefore, benefits are protected, but with an annual premium per-head cost to the Employer ($80/participant for 2019).

About Pollard & Associates, Inc.

Pollard & Associates, Inc. is a full-service, independent retirement plan design, consulting, administration and actuarial firm specializing in qualified retirement plans of all types. Since 1970, we have built our reputation as one of the area's premier third-party plan administrators by diligently serving our clients in the Baltimore/ Washington metropolitan area with high-level technical expertise and quality service. Our firm currently has a dedicated and experienced team of 20 administrators and pension professionals, including two on-staff Enrolled Actuaries. We provide plan design, consulting, administrative, actuarial, and trust accounting services to approximately 800 retirement plans of various types and sizes, including over 150 Defined Benefit/Cash Balance Plans.