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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 (\$329K 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 \$3.1M 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	64,000	44	128,000	58	258,000
31	67,000	45	135,000	59	271,000
32	70,000	46	142,000	60	285,000
33	74,000	47	149,000	61	299,000
34	78,000	48	156,000	62	315,000
35	82,000	49	164,000	63	308,000
36	86,000	50	173,000	64	302,000
37	90,000	51	182,000	65	295,000
38	95,000	52	191,000	66	311,000
39	100,000	53	201,000	67	327,000
40	105,000	54	211,000	68	343,000
41	110,000	55	222,000	69	361,000
42	116,000	56	233,000	70	379,000
43	122,000	57	245,000		

*NRA 62, 22AMT

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	191,000	191,000	67,500	258,500	110,509
53	201,000	401,550	67,500	268,500	114,784
54	211,000	632,628	67,500	278,500	119,059
55	222,000	886,259	67,500	289,500	123,761
56	233,000	1,163,572	67,500	300,500	128,464
57	245,000	1,466,750	67,500	312,500	133,594
58	258,000	1,798,088	67,500	325,500	139,151
59	271,000	2,158,992	67,500	338,500	144,709
60	285,000	2,551,942	67,500	352,500	150,694
61	299,000	2,978,539	67,500	366,500	156,679
62	23,569	3,151,035	67,500	91,069	38,932

*5% ICR, NRA 62, 22AMT

Note, for Solo Plans & Professional service organizations with less than 25 Participants, 401(k) PSP Maximum Annual Contribution is limited to 401(k) MAX of \$20,500 plus \$6,500 catch-up, plus 6% of pay Profit Sharing.

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 *Enrolled 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 (\$88/participant for 2022).

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 over 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.