



## 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 \$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  | 288,000                         |
| 36  | 80,000                          | 50  | 162,000                         | 64  | 282,000                         |
| 37  | 85,000                          | 51  | 170,000                         | 65  | 276,000                         |
| 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, 21AMT

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

| <b>Age</b> | <b>CBP<br/>Maximum Annual<br/>Contribution</b> | <b>CBP Plan<br/>Accumulation*</b> | <b>401(k) / Profit Sharing<br/>Maximum Annual<br/>Contribution</b> | <b>Total<br/>Contributions to<br/>Both Plans</b> | <b>Tax Savings (Deferral)<br/>(37% Fed;<br/>5.75% State)</b> |
|------------|--|-----------------------------------|--|--|--|
| 52         | 179,000  | 179,000                           | 64,500   | 243,500  | 104,096  |
| 53         | 188,000  | 375,950                           | 64,500   | 252,500  | 107,944  |
| 54         | 197,000  | 591,748                           | 64,500   | 261,500  | 111,791  |
| 55         | 207,000  | 828,335                           | 64,500   | 271,500  | 116,066  |
| 56         | 218,000  | 1,087,752                         | 64,500   | 282,500  | 120,769  |
| 57         | 229,000  | 1,371,139                         | 64,500   | 293,500  | 125,471  |
| 58         | 241,000  | 1,680,696                         | 64,500   | 305,500  | 130,601  |
| 59         | 253,000  | 2,017,731                         | 64,500   | 317,500  | 135,731  |
| 60         | 266,000  | 2,384,618                         | 64,500   | 330,500  | 141,289  |
| 61         | 280,000  | 2,783,848                         | 64,500   | 344,500  | 147,274  |
| 62         | 25,414   | 2,946,527                         | 64,500   | 89,914   | 38,438   |

\*5% ICR, NRA 62, 21AMT

Note, for Solo Plans, 401(k) PSP Maximum Annual Contribution is limited to 401(k) MAX of \$19,500 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 (\$86/participant for 2021).

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