



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 (\$364K 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 \$3.4M 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	69,000	44	139,000	58	280,000
31	73,000	45	146,000	59	294,000
32	77,000	46	154,000	60	309,000
33	80,000	47	161,000	61	325,000
34	85,000	48	170,000	62	341,000
35	89,000	49	178,000	63	335,000
36	93,000	50	188,000	64	328,000
37	98,000	51	197,000	65	321,000
38	103,000	52	207,000	66	337,000
39	108,000	53	218,000	67	355,000
40	114,000	54	229,000	68	373,000
41	120,000	55	241,000	69	392,000
42	126,000	56	253,000	70	412,000
43	132,000	57	266,000		

*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	207,000	207,000	73,500	280,500	119,914
53	218,000	435,350	73,500	291,500	124,616
54	229,000	686,118	73,500	302,500	129,319
55	241,000	961,423	73,500	314,500	134,449
56	253,000	1,262,495	73,500	326,500	139,579
57	266,000	1,591,619	73,500	339,500	145,136
58	280,000	1,951,200	73,500	353,500	151,121
59	294,000	2,342,760	73,500	367,500	157,106
60	309,000	2,768,898	73,500	382,500	163,519
61	325,000	3,232,343	73,500	398,500	170,359
62	25,083	3,419,043	73,500	98,583	42,144

*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 \$22,500 plus \$7,500 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 (\$96/participant for 2023).

About Pollard & Associates, Inc.

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