

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 (\$394.6K 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 \$3.7M 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 Benefit Credit	Age	CBP Maximum Annual Benefit Credit	Age	CBP Maximum Annual Benefit Credit
30	75,000	44	151,000	58	304,000
31	79,000	45	159,000	59	320,000
32	83,000	46	167,000	60	336,000
33	88,000	47	176,000	61	353,000
34	92,000	48	185,000	62	372,000
35	97,000	49	194,000	63	364,000
36	102,000	50	204,000	64	356,000
37	107,000	51	215,000	65	349,000
38	112,000	52	226,000	66	366,000
39	118,000	53	237,000	67	385,000
40	124,000	54	249,000	68	405,000
41	130,000	55	262,000	69	426,000
42	137,000	56	275,000	70	448,000
43	144,000	57	289,000		

*NRA 62, 26AMT

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

Age	CBP Maximum Annual Benefit Credit	CBP Plan Accumulation*	401(k) / Profit Sharing Maximum Annual Contribution	Total Contributions to Both Plans	Tax Savings (Deferral) (37% Fed; 6.50% State)
52	226,000	226,000	80,000	306,000	133,110
53	237,000	474,300	80,000	317,000	137,895
54	249,000	747,015	80,000	329,000	143,115
55	262,000	1,046,366	80,000	342,000	148,770
56	275,000	1,373,684	80,000	355,000	154,425
57	289,000	1,731,368	80,000	369,000	160,515
58	304,000	2,121,937	80,000	384,000	167,040
59	320,000	2,548,033	80,000	400,000	174,000
60	336,000	3,011,435	80,000	416,000	180,960
61	353,000	3,515,007	80,000	433,000	188,355
62	29,970	3,720,727	80,000	109,970	47,837

*5% ICR, NRA 62, 26AMT

Note, for Solo Plans & Professional service organizations with less than 25 Participants, 401(k) PSP Maximum Annual Contribution is generally limited to 401(k) MAX of \$24,500 plus \$8,000 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 (\$111/participant for 2026).

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