# Cash Balance Plans


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# What are “Cash Balance Plans”?

A Cash Balance Plan is a Defined Benefit Plan that looks like a Money Purchase Plan. Like a Money Purchase Plan, fixed contributions are credited to each participant at the end of each year. In addition, participants receive interest credits based on the interest rate defined in the plan. The credit is a fixed rate specified in the plan. Increases or decreases in the value of the plan’s investments do not directly affect the benefits promised to the participants. The investment risks and rewards are borne solely by the employer. The plan maintains a hypothetical account balance for each participant. When the participant retires, his benefit is the value of the hypothetical account. This lump sum value can be converted to a monthly pension at retirement.

A Cash Balance plan is a Hybrid Plan. It appears to participants as a Defined Contribution Plan but is treated under the Internal Revenue Code as a Defined Benefit Plan. Participant statements look like a Defined Contribution Statement. It has a Beginning Balance, Contribution Credits, Interest Credits and an Ending Balance.

A Cash Balance plan can be used to help skew benefits to a select group of employees. This makes this type of design more powerful than a traditional Defined Benefit plan in certain circumstances.

## Frequently Asked Questions:

**Can a Cash Balance Plan be combined with a 401(k) Profit Sharing Plan?**
To enable larger contributions, especially for Principals and Owners, Cash Balance Plans are usually combined with 401(k)/Profit Sharing Plans. The 401(k) and Profit Sharing component can also provide flexibility in the combined plan.

**How are investments in a Cash Balance plan managed?**
Assets in the plan are not allocated to participants. Participants cannot direct the investments. The pooled fund is invested by the Trustees and Investment Advisers. Gains (losses) from investments reduce (increase) the Plan Sponsor’s contribution. Since interest credit guarantees cannot exceed market rate of return, assets may be invested conservatively.

**What are the other features of the Cash Balance Plan?**
When a participant becomes entitled to receive benefits under a cash balance plan, the benefits are defined in terms of an account balance. For example, assume that a participant has an account balance of $100,000 when he reaches age 62. If the participant decides to retire at that time, he would have the right to an annuity based on his account balance. Such an annuity might be approximately $10,000 per year for life. In many cash balance plans, however, the participant could instead choose (with consent from his spouse) to take a lump sum benefit equal to the $100,000 account balance.

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In addition to generally permitting participants to take their benefits as a lump sum benefit at retirement, cash balance plans often permit vested participants to choose (with consent from their spouses) to receive their accrued benefits in lump sums if they terminate employment prior to retirement age. Traditional defined benefit pension plans do not offer this feature as frequently.

If a participant receives a lump sum distribution, that distribution generally can be rolled over into an Individual Retirement Account (IRA) or to another employer's plan if that plan accepts rollovers. This makes Cash Balance plans portable, therefore appealing to participants.

**What is the target market for cash balance plans?**

Professional Groups:

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| Attorney | Financial Advisors |
| Consultant | Real Estate Agents |
| Dentist | Software Designers |
| Doctor Groups | Specialists |

**What are some ideal attributes that best fit Cash Balance Plans?**

· Typical plan size is under 20 employees
· Owner/Group to benefit over age 45
· Company able to support large contribution
· Plan should be in place for at least 3 years

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