Cash Balance Plans

What You Need to Know About This Powerful Retirement Savings Tool

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What is a Cash Balance Plan?

A cash balance plan is a type of defined benefit pension that offers retiring employees either a lump-sum payment, which can be rolled over into an IRA, or a fixed income stream.

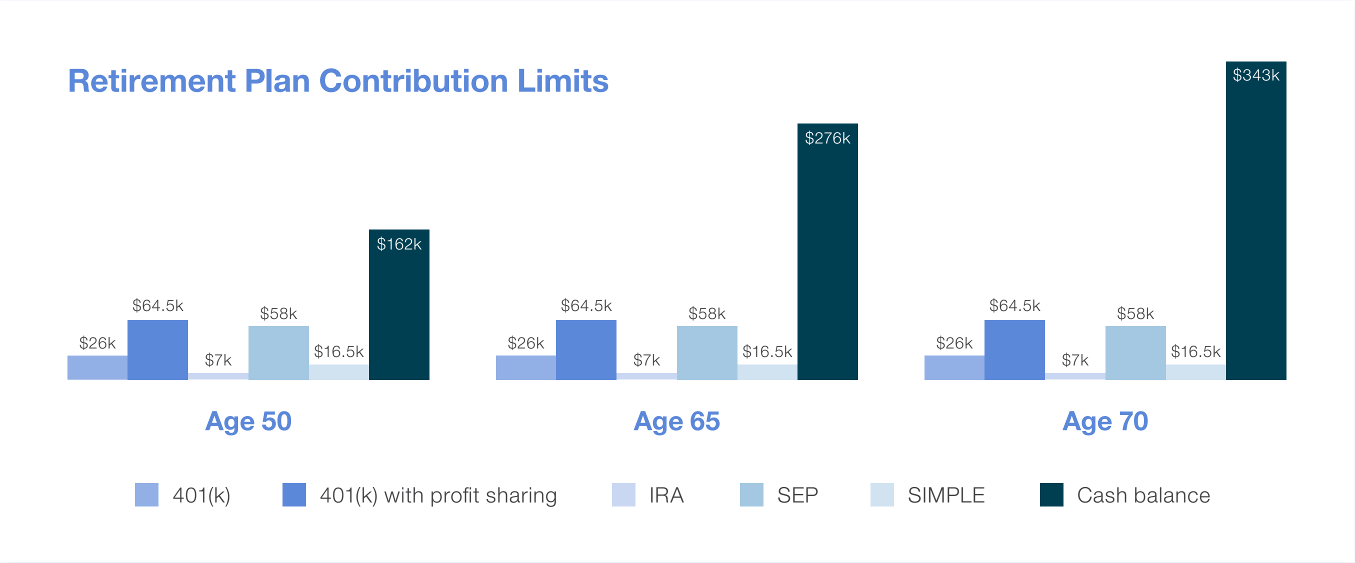
Custom plans are based on each participant's age, compensation, target income and assumed interest credit, which is typically based on an external index, such as the Consumer Price Index or the rate on U.S. Treasury bills.

Contribution levels are flexible during the plan design stage but once committed to, should expect to be funded for at least three years.

Advantages of a Cash Balance Plan

Benefit growth is often more stable than other retirement savings plans due to a conservative investment approach and is expressed as an account balance or "cash balance."

Contribution limits are significantly higher than other retirement plans, increasing as you age. The older you are and the higher your compensation, the more you can contribute to a cash balance plan. (Note: Contributions are based on several variables that are represented by a formula specified in the plan document.)



To maximize retirement income and optimize tax planning, it's advantageous to combine a cash balance plan and a 401(k) profit-sharing plan.

How Does a Cash Balance Plan Work?

A cash balance plan does not depend on employee contributions, and employees do not choose investments. As such, investment choices and associated risks are generally the responsibility of the employer. This means if the invested assets are not in line with the plan value, the employer must make up the difference. (Employers also own profits that exceed the plan's value.)

Who Does a Cash Balance Plan Benefit?

Considering its generous contribution limits, cash balance plans benefit several groups in particular, including:

» Older, high-income earners who want to accelerate their retirement savings

» High-income earners such as medical professionals and dentists who want to catch up on retirement savings based on "lost" opportunities to save for retirement while in school

» Small business owners who want to catch up on delayed retirement savings and attract top talent; business owners can enjoy a significant tax deduction, plus generous tax-deferred retirement contributions for themselves.

» A mobile workforce who wants to transfer accumulated benefits when changing jobs throughout their careers

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https://www.bls.gov/opub/mlr/cwc/cash-balance-pension-plans-the-new-wave.pdf
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