Cash Balance Plans

Accelerate Savings, Maximize Tax Deductions

Cash Balance Plans are a great design for employers seeking to fund much larger contributions than permitted under a 401k and Profit Sharing Plan.

How Do Cash Balance Plans Work?

- **Type of Defined Benefit Plan** - Cash Balance Plans are a type of Defined Benefit Plan, but they offer some of the best features of Defined Benefit Plans and Defined Contribution Plans.
- **Hypothetical Account** - Participants have a hypothetical “account” that is credited with a pay credit (i.e., 5% of pay) and an interest credit (index-based).
- **Retirement Benefits** – Are usually expressed in the form of a lifetime annuity, but lump sum payment is permitted.
- **Pooled Investments** – Trustees make all investment decisions and generally invest in assets that track the plan’s stated interest credit.
- **Required Contributions** – Employer contributions are required, and the annual amount is determined by an actuary. If assets are invested conservatively, contributions generally do not fluctuate widely from year-to-year as long as the plan remains adequately funded.
- **Combo Plans** – A Cash Balance Plan can be paired with a 401k Plan to allow for even higher savings.
- **Federal Guarantee** – Benefits are usually insured by the Pension Benefit Guaranty Corporation (PBGC).

Is a Cash Balance Right for Me?

A Cash Balance Plan may be a good if:

- **Seek Large Contributions** - You seek contributions and tax deductions> $69k.
- **Profitable Business** - Your business has strong profits and reliable cash flow.
- **Prepared to Contribute** - You are prepared to contribute at least 7.5% of employees’ salaries each year.
- **Time to Catch Up** - You have used cash to build your business and postponed retirement savings.

Learn more about Cash Balance Plans at [www.julyservices.com/cash-balance.](www.julyservices.com/cash-balance)

Cash Balance + 401k Illustration

DEMOGRAPHICS			CONTRIBUTIONS			
EMPLOYEE	AGE	SALARY	401K DEFERRAL	EMPLOYER CONTRIBUTION	CB CREDIT	TOTAL W/O DEFERRAL
Owner 1	55	$345,000	$30,500	$46,000	$300,150	$346,150
Owner 2	50	$345,000	$30,500	$46,000	$260,475	$306,475
Employee 1	45	$50,000	$5,000	$3,550	$800	$4,350
Employee 2	40	$45,000	$3,000	$3,195	$800	$3,995
Employee 3	35	$40,000	$1,500	$2,840	$800	$3,640
Employee 4	30	$35,000	$500	$2,800	$800	$3,600
Employee 5	25	$30,000	$0	$2,130	$800	$2,930
% to Owner						97.2%

This is a hypothetical example dependent on specific assumptions and used for illustrative purposes only. Plan is assumed to have PBGC coverage; otherwise combined plan limits may apply. Full amounts may not be tax deductible in the first plan year.