

## Cash Balance Plans

*Are you looking for ways to save more money for retirement?*

### How does it Work?

Like a Money Purchase Plan, fixed contributions are credited to each participant's Hypothetical Account. Interest credits (defined in the plan) are applied to the Hypothetical Balance. An example of an annual interest credit would be 5%. Plan assets are managed by either the trustees, investment advisor or custodian. Participants cannot direct the investments in their Cash Balance fund. Actual gains/losses on the account reduce (increase) the Employer contributions. Since the interest credit cannot exceed market rate of return, assets should be invested conservatively. A Cash Balance Plan may impose a three-year cliff vesting on employer contributions. Forfeitures that result from a participant terminating prior to being 100% vested, may be used to offset (reduce) employer contributions. The plan appears to participants as a Defined Contribution Plan, but under the Internal Revenue Code it is actually a Defined Benefit Plan which allows for greater contributions. Companies with principals/owners who want to contribute more than \$55,000 per year, who have consistent profit patterns and are already contributing over 5% in staff contributions to a separate 401(k)/Profit Sharing Plan are good candidates for a Cash Balance Plan.

### Why to consider a Cash Balance Plan

Higher taxes and the need to catch up on retirement savings are the major motivating factors for business owners to add a Cash Balance Plan. This plan offers the high contribution limits of a traditional defined benefit plan but retains the flexibility and portability of a 401(k) plan. Cash Balance Plans are easier for employees to understand, offer a more consistent contribution, and are fully portable and allow account balances to be rolled over into IRA's upon separation of service or retirement.

### Sample Cash Balance Allocation

First Name	AA	RA	Considered	Cash Balance		401(k)	Safe	Profit Sharing		Total Contribution
			Earnings	Amount	%			Amount	%	Amount
DAVID	60	65	275,000	260,000	94.5	24,500	7,800	0	0.0	292,300
TRISH	28	65	40,000	1,000	2.5	0	1,200	1,360	3.4	3,560
JO-ANN	57	65	32,000	800	2.5	0	960	1,088	3.4	2,848
JOHN	26	65	29,000	725	2.5	0	870	986	3.4	2,581
ROBERT	59	65	45,000	1,125	2.5	0	1,350	1,530	3.4	4,005