2019 Cash Balance Guide

Cash Balance Retirement Plans

The information provided herein is for quick reference only. All ERISA, IRS and DOL rules and requirements are complex and require additional data not included here.

What is a cash balance plan?

A cash balance plan is a type of employer-sponsored defined benefit (DB) retirement plan. Unlike traditional defined benefit plans that provide for a monthly benefit at retirement, which can be confusing and hard to grasp, cash balance plans provide the **promised benefit in the form of an "account" balance**. The participant statement provided to the participant resembles a 401(k)/profit sharing plan statement. This makes the cash balance benefit much easier to understand and is, thus, more appreciated by employees.

How does a cash balance plan work?

In general terms, the cash balance plan document will define groups of participants and their "**pay credit**". This pay credit might be defined as a percentage of compensation or a dollar amount (or some combination of both). For example, the pay credit may be the lesser of 50% of compensation or $125,000 for the principals and the lesser of 3% of compensation or $1,000 for the rank and file employees.

In addition to the pay credits, the hypothetical accounts are credited with guaranteed interest at the **interest crediting rate** defined in the plan document. Typical rates include Treasury Rates or a fixed rate (or some combination of both). For example, the interest crediting rate may be the lesser of a fixed rate or an index.

How is the interest crediting rate set?

By law, the interest crediting rate must not exceed a "market rate". Setting the interest rate is part of the initial plan design; once set, the interest crediting rate definition normally does not change.

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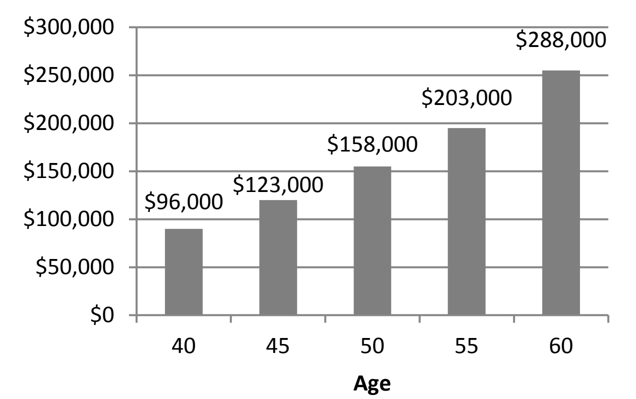
How does a cash balance plan complement the 401(k)/ profit sharing plan?

The 401(k)/profit sharing plan, also known as the defined contribution (DC) plan, is an important part of the cash balance design. The profit sharing allocations to NHCEs in the DC plan essentially buy the HCEs the right to **contribute much larger sums of money** into the cash balance plan. Plan sponsors adding a cash balance plan should be informed that their profit sharing contributions are not necessarily discretionary any longer.

What are the tax deduction rules?

The deductible limit to combined plans (DB and DC) is the greater of 25% of compensation or the minimum required funding amount for the DB plan. Post 2005, the 25% limit does not apply if the employer contributions to the DC plan do not exceed 6% of aggregate compensation. When DC contributions exceed 6%, only those over 6% are considered in the 25% limit. Effectively, this translates to a **31% limit**. Larger limits apply if the plan is subject to coverage by the PBGC[3].

Approximate annual contribution limits by age



Contribution deposit deadlines

For tax deduction purposes: By the due date or extended due date of the employer's tax return.

Minimum funding requirements: Cash balance plans must make required minimum funding contributions within 8½ months following the plan year end.