



Cash Balance Plan Basics

A Cash Balance plan is a type of employer-sponsored retirement plan falling under the category of defined benefit plans. Unlike the more common defined contribution plans, such as 401(k)s, where the ultimate retirement benefit depends on the investment performance, Cash Balance plans promise a predetermined benefit based on a set formula. Employees can expect to receive a specified amount at retirement, regardless of investment outcomes.

How Do Cash Balance Plans Work?

Cash Balance plans operate through two main components: the hypothetical individual account and the guaranteed interest credit. Employees' accounts receive annual contribution credits from their employers, usually in the form of a percentage of their salary. These contributions are then credited with a guaranteed interest rate, often tied to a market benchmark.

The hypothetical individual account is purely for accounting purposes, as it tracks the contribution credits and interest credits over time. It doesn't represent an actual investment account with separate assets. Instead, it serves as a record-keeping tool for the plan.

The Benefits for Employees

One of the key advantages of Cash Balance plans for employees is the predictability and security they offer. Unlike defined contribution plans, where retirement income can fluctuate depending on the market's performance, Cash Balance plans provide a fixed benefit that grows predictably over time.

Another benefit is that Cash Balance plans can be particularly advantageous for older employees or business owners seeking to turbocharge their retirement savings in the final years before retirement. These plans allow higher annual contributions for older workers, helping them catch up on retirement savings quickly.

The Advantages for Employers

These plans can be a powerful tool for attracting and retaining talented employees. They can be structured to favor key employees or business owners without running afoul of nondiscrimination rules. This flexibility allows employers to customize their retirement offerings to suit their unique workforce needs. For employers in need of tax deductions, Cash Balance plans allow for much larger tax-deductible contributions than a defined contribution plan.

Conclusion

Cash Balance plans provide employees with a reliable retirement benefit that is safeguarded from market volatility. They offer employers an attractive tool for talent retention, accelerated retirement savings, and large tax deductions. With careful planning and foresight, Cash Balance plans can pave the way to a financially secure retirement for both employees and employers alike.

However, while Cash Balance plans offer considerable benefits, they might not be suitable for every business. Employers considering such a plan should seek guidance from qualified advisors to ensure it aligns with their long-term retirement goals and overall financial strategy. The team at Benchmark Retirement Plan Services, Inc. has the expertise to determine if a Cash Balance Plan is right for your business.