Independent Actuaries, Inc.

FREQUENTLY ASKED QUESTIONS (FAQ'S)
ABOUT CASH BALANCE PLANS

What is a Cash Balance Plan?

A retirement plan that looks like a 401(k)/Profit Sharing Plan, but has significantly higher deductible contribution limits. Because they combine characteristics of different kinds of plans, Cash Balance Plans are sometimes referred to as Hybrid Plans.

How does it work?

Each participant has a "hypothetical" account balance that grows each year with employer contributions (called pay or principal credits) and interest credits. Account balances are hypothetical because there is really just one pooled account for all plan participants, but from the participant's standpoint, there's nothing hypothetical about it; the balance represents the benefit to which they are entitled.

How are cash balance plans different from 401(k)/Profit Sharing Plans?

A cash balance plan looks and feels like a 401(k) Plan from the participant's standpoint. An account grows each year with employer contributions and interest. However, the plan assets are pooled and the employer directs how the money is invested. Interest is guaranteed on participants' accounts and may not necessarily follow the plan's actual investment return on assets.

How are interest credits determined?

Interest credits are chosen by the plan sponsor, are specified in the plan document, and can be either a flat amount or tied to an index (e.g. – 30-year Treasury rates). Again, this is a key difference between Cash Balance Plans and 401(k)/Profit Sharing Plans. No matter what the pooled assets do, account balances grow at the specified interest credit rate.

How are plan assets typically invested?

Because plan assets are pooled but account balances earn "guaranteed" interest credits, it is usually desirable for actual returns to match the interest crediting rate as closely as possible each year. Because of this, plan assets are typically professionally managed to ensure that the plan provides dependable, predictable levels of deductible contributions.

Are plan assets protected from creditors?

Yes, like any qualified retirement plan, assets are protected from corporate creditors.

What happens when a participant terminates employment?

A participant can choose to roll over or take a cash distribution of their vested hypothetical account balance. Since the benefits are from a defined benefit plan, they also follow defined benefit rules. If the account balance is over a certain threshold, the participant must also be given a choice of an annuity form of payment.

503.520.0848
info@indact.com
www.independentactuaries.com

4500 Kruse Way
Suite 200
Lake Oswego, OR 97035

Why should I consider setting up a Cash Balance Plan for my business?

A Cash Balance Plan, especially when added on top of an existing 401(k)/Profit Sharing Plan, is a solution that allows the business owner(s) to increase pre-tax savings enough to achieve a comfortable standard of living in retirement. Small business owners who have dependable high levels of income, who may already have a 401(k)/Profit Sharing Plan, and who would like to save more than $59,000 per year on a tax-deferred basis are likely to benefit from a Cash Balance Plan.

What levels of annual deductible contribution are possible?

Unlike 401(k)/Profit Sharing Plans, in which deductible contribution limits are generally uniform for everyone, the maximum deductible amounts in a Cash Balance Plan vary considerably by age, with much larger contributions possible for older individuals.

Examples of Maximum Annual Contributions to 401(k), Profit Sharing & Cash Balance Plans

Age	401(k) Only	401(k) with Profit Sharing	Cash Balance	Total Maximum
60 - 65	$24,000	$59,000	$247,000	$306,000
55 - 59	$24,000	$59,000	$189,000	$248,000
50 - 54	$24,000	$59,000	$145,000	$204,000
45 - 49	$18,000	$53,000	$111,000	$164,000
40 - 44	$18,000	$53,000	$85,000	$138,000
35 - 39	$18,000	$53,000	$65,000	$118,000

(Contribution levels based on 2016 limits. Actual contribution amounts may depend on IRS compliance testing results)

Can the amount of benefit vary among partners, and between owners and employees?

Yes. A Cash Balance Plan can be designed with varying benefit levels, or "tiers", for individual partners. For example, one benefit level could be $150,000 per year, another $100,000 per year, and another $0. Further, employees will usually participate at a much lower level than the business owners (8% to 10% of pay is typical).

Can benefit levels for participants be changed in the future?

Yes. Although benefit levels should not be changed on a regular basis, a Cash Balance Plan can generally be amended to increase, decrease or even eliminate benefit levels for any or all participants. Note though that there are certain restrictions on lowering the interest crediting rate.

503.520.0848
info@indact.com
www.independentactuaries.com

4500 Kruse Way
Suite 200
Lake Oswego, OR 97035

How can I go about setting up a Cash Balance Plan?

Contact Independent Actuaries, Inc. at 503.520.0848, and a consultant will request basic information about your business. We will then produce a customized illustration that will demonstrate the contribution levels that can be obtained. From there, we can work with you and your advisors to refine the illustration to best meet your objectives. Should you decide to proceed, we will draft the required plan documentation to create the plan, and you can start making deductible contributions.

503.520.0848
info@indact.com
www.independentactuaries.com

4500 Kruse Way
Suite 200
Lake Oswego, OR 97035