Considerations for Adding a Cash Balance Plan

With tax season at the forefront of your mind, now is a great time to consider opportunities to lower taxable income in the future. One way to dramatically reduce taxes and increase retirement savings is by adding a Cash Balance Pension Plan.

A Cash Balance Plan is a type of creditor protected, tax-qualified retirement plan that enables physicians, dentists, and other business owners to contribute a much larger tax deductible contribution than possible in a 401(k) Plan by itself. The following chart shows sample maximum deductible contribution amounts for individuals of different ages:

Age	Maximum 401(k) Profit Sharing Plan Contribution	Sample Maximum With 401(k) and Cash Balance Plans
40	56,000	152,000
50	62,000	220,000
60	62,000	323,000

Not only do Cash Balance Plans provide the opportunity to reduce current taxes, the tax deferred investment treatment makes Cash Balance Plans an effective way to increase retirement savings.

While a Cash Balance Plan provides for tax deductible contributions and tax deferred investment growth like a 401(k) Plan, it is different in some important ways. A Cash Balance Plan is a type of a Defined Benefit Pension Plan. This means that the benefit amount is written into the Plan Document and that the value of the benefit grows with a plan defined interest crediting rate (usually a low fixed interest rate). Considering this, the plan investments in a Cash Balance Plan are trustee directed instead of participant directed.

Cash Balance plans also required an actuary to certify the funding status of the plan each year and to calculate the available range of contributions. While Cash Balance Plans do not have the absolute contribution flexibility inherent in 401(k) Plans, they can be extremely flexible with respect to contribution amount with proper management and coordination between plan sponsors and advisors.

Given the significant value a Cash Balance Plan can add to your benefits lineup it's no wonder these plans have become more popular. Your business could be a good candidate for this type of plan if:

- some or all of the owners or key employees want to contribute more than what the 401(k) profit sharing plan will allow (and you have the relatively consistent cash flow),
- you can contribute at least 7.5% of compensation for the staff,
- your team includes some employees that are younger than the owners (note that does not mean all employees need to be younger), and
- staff payroll per owner is not too high.

Contact your EBS retirement plan professional to learn more about how a Cash Balance Plan might work for your situation.

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