



CASH BALANCE PENSION PLANS

A cash balance pension plan is a tax-deferred (qualified) retirement plan that provides an alternative means of potentially accelerating retirement savings with the benefit of tax deductibility.

Participant accounts exhibit the combined characteristics of a traditional defined benefit (DB) plan, including high contribution amounts and guaranteed benefits, with those of a defined contribution (DC) plan, where each participant maintains an account with a portable balance.



WHY CASH BALANCE?

Tax Reduction

- Contributions are tax deductible to the sponsoring entity, and investment earnings grow tax deferred until withdrawn.
- Significant potential deferral allowances make cash balance a powerful income deferral tool.

Accelerated Retirement Savings

- When business principals and partners combine a cash balance plan with a 401(k) profit-sharing plan, pre-retirement savings amounts have the potential to be significantly increased.
- Accelerated contributions may allow for a lifetime of retirement savings to be compressed into a much shorter time period (versus contributions without a cash balance retirement strategy).
- Annual cash balance contributions can range from \$66,000 to \$398,000, subject to current laws and limitations, with a lifetime benefit of approximately \$3 million.¹

Stabilized Asset Growth

- Unlike traditional defined benefit plans, growth is achieved primarily through contributions and real earnings and is less reliant on total return strategies.
- Conservative benchmarks, attractive plan design and a short time horizon can be used to diminish volatility in plan values, providing for greater potential contribution stability.
- Cash balance plans may act as a substitute for principle preservation strategies within an overall retirement strategy.

Ancillary Benefits

- Plan assets receive protection from creditors in the event of bankruptcies or lawsuits.
- The generous contribution limits within cash balance plans increase with age, potentially amplifying lifetime savings and tax benefits.
- In the event of a change of employment, depending on the plan design, account values may be distributed as either a lump sum or converted to an annuity, or (potentially) left in the plan. Alternately, the accrued balance may be rolled into another tax-qualified vehicle, which will sustain the tax-deferred treatment while providing portability.

2024 Contribution Limits²

Cash balance plans have generous contribution limits that increase with age, amplifying lifetime savings and tax deferral.

Cash Balance Concept – 2024 Enhanced Contributions

Age	Elective Deferrals	Profit Sharing	Maximum CBP Credit	Combined Plan Total
35	\$23,000	\$46,000	\$91,000	\$160,000
40	\$23,000	\$46,000	\$117,000	\$186,000
45	\$23,000	\$46,000	\$150,000	\$219,000
50	\$30,500	\$46,000	\$193,000	\$269,500
55	\$30,500	\$46,000	\$248,000	\$324,500
60	\$30,500	\$46,000	\$318,000	\$394,500
65	\$30,500	\$46,000	\$329,000	\$405,500

Source: October Three; assumes staff benefits of 7.5% (generally, they need contributions of 5.0%-7.5% of pay). Subject to all applicable regulations and dependent upon plan design.



IS CASH BALANCE RIGHT FOR YOU?

- Do partners have an appetite for potentially increasing retirement savings above what is currently available?
- Is this appetite likely to be sustainable for five or more years?
- Is the plan sponsor willing to contribute at least 5% of payroll toward staff retirement benefits?

If the answer to these questions is “yes,” your wealth advisor can provide a comprehensive review of your contribution and tax reduction options through a customized proposal.

CASH BALANCE PLANS: A POWERFUL RETIREMENT OPTION

Plan sponsors can tailor their plan to minimize funding risks while offering participants a meaningful mechanism to potentially increase tax-deferred retirement savings. In today’s rapidly changing and competitive business environment, the added benefits of a cash balance retirement offering could help attract qualified job candidates and retain valuable employees, which, in turn, helps with business continuity and success.

Contact your wealth advisor to discuss whether a cash balance plan may be right for your business team.

^{1,2}Internal Revenue Code 415

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