Why Cash Balance Makes Sense

According to Pension and Investments Magazine, Cash Balance plans are a growing segment of the defined benefit plan universe and could soon be as common as 401(k)s. How do they work?

SMALL BUSINESS, BIG OPPORTUNITY

What is a Cash Balance plan?

A Cash Balance plan is an IRS-qualified (tax-favored) retirement plan that combines the high contribution amounts of a defined benefit plan with the look, feel, and portability of a defined contribution plan. The plan features characteristics that resemble a defined contribution plan, especially for participants. A cash balance plan provides a benefit that is reported to participants as an individual account balance, even though it is managed as a pooled investment. Each participant in a cash balance plan has an account, and that account grows by compensation credits and interest credits.

How does a Cash Balance plan work?

In a Cash Balance plan, each participant has an account that grows annually in two ways: with an employer contribution and with an interest credit on previous contributions. Employer contributions are determined by a formula specified in the plan document and can provide the employer the opportunity to significantly increase their retirement savings.

401(k) Plan maximum deferral limit for 50-year-old in 2016*

401(k) & Profit Sharing Plan maximum deferral limit for 50-year-old in 2016*

401(k), Profit Sharing, & **Cash Balance Plan** maximum deferral limit for 50-year-old in 2016*

The Evolution of Plan Design

*Based on Internal Revenue Service 2016 Plan Limits

How are Cash Balance plan investments handled?

The plan grows based on the annual interest crediting rate (ICR) that is written into the plan document and is guaranteed. Prior to October 2010, the IRS had not defined ICR rules so most plans used the 30-year Treasury rate. In 2010 regulations expanded the definition allowing for certain fixed rates, investment-based rates, and the “actual rate of return” on plan investments. The ICR is often tied to a fixed rate, typically around 4% to 6%.

Can Cash Balance plans be combined with 401(k) & Profit Sharing plans?

Yes, employers can offer a combination of plans. In most cases, a Cash Balance plan is combined with a 401(k) Profit Sharing plan in order to maximize contribution levels and optimize tax efficiency.

Cash Balance Quick Facts

Many business owners and partners are looking for larger tax deductions and increased retirement savings. Cash Balance Plans may be the perfect solution. The 2006 Pension Protection Act (PPA) and the Cash Balance regulations issued in 2010 and 2014 have made these plans even more flexible.

2015 Maximum Contributions for Cash Balance Plans

Age	Considered Earnings					
	$265,000	$200,000	$150,000	$100,000	$75,000	$50,000
40	86,329	86,329	86,329	86,329	86,329	82,605
45	110,996	110,996	110,996	110,996	110,996	79,560
50	142,828	142,828	142,828	142,828	113,508	75,672
55	183,776	183,776	183,776	141,535	106,151	70,767
60	236,638	236,638	194,745	129,830	97,372	64,915
65	244,579	232,932	174,699	116,466	87,350	58,233
70	269,796	203,620	152,715	101,810	76,357	50,905

Source: Internal Revenue Service 2015 Plan Limits

This information is for illustrative purposes only and is not intended to serve as either legal or tax advice.

Key Benefits of Cash Balance Plans:

- Reducing taxes: Business owners can save significantly on corporate and personal taxes.
- Accelerating retirement savings: Many owners can double or even triple their pre-tax retirement savings.
- Attracting and retaining top talent: Cash Balance plans can make a firm's retirement package more appealing to future partners and employees.
- Flexibility: Different contribution amounts can be specified for different participants or groups.
- Easy to understand: Cash Balance plans provide simple to understand individual participant accounts and statements.
- Portability: Participants can roll over their Cash Balance accounts into an IRA or another qualified plan.
- Asset protection: Cash Balance plan assets are protected from creditors in the event of bankruptcy or lawsuits.
- Business succession planning: A Cash Balance plan can provide a tool to facilitate a business transfer between partners.

How does the Q3 Voyage Cash Balance Strategy Work?

The Voyage Cash Balance Strategy's objective is to achieve the target ICR on a multi-year average while focusing on capital preservation. The portfolio is allocated mostly to income investments but also includes exposure to equities and alternatives to capitalize on opportunities during periods of rising interest rates. The strategy is reviewed weekly and over-weights to strength. Assets are moved to a preservation account as the annual target ICR is approached.

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