BLUE RIDGE ASSOCIATES

Cash Balance Plans

An overview of the facts and benefits

Cash balance plans are a popular retirement plan option, especially with small, high-earning businesses (doctors, attorneys, etc.). When added to a retirement plan strategy with the right design, these plans can maximize tax deductions and savings. See the example below.

Employee	Age	Salary	401(k) plan			Cash balance plan
			Deferral	Safe harbor	Profit sharing	
Owner	55	$360,000	$32,500	$0	$20,190	$275,000
Owner's spouse	51	$45,000	$32,500	$0	$2,700	$1,000
Employee 1	35	$38,500	N/A	$1,155	$1,925	$963
Employee 2	40	$32,000	N/A	$960	$1,600	$800
	Total contributions					$371,293
	Total contribution for owner/family (98% of total)					$363,890
	Tax savings at assumed 46%					$127,362
	Less: Cost for contributions to non-owners					($7,403)
	Net annual tax savings for owners/family					$119,959

How does the plan reduce my tax liability?

As a business owner, your net business income generally flows through to your personal income taxes. Since contributions to the plan are deductible by the business, this directly reduces your net business income and your tax liability.

Is there an obligation to contribute to the plan each year?

Yes. However, the plan can always be frozen to substantially lower the required contribution for future years, or terminated to eliminate future contribution requirements. Also, a plan can usually be frozen in the first half of a year to reduce the current year's contribution requirement.



How are contributions deducted?

Contributions are deductible by the business. The amounts contributed come directly from the business and are not subject to payroll taxes.

Is there a minimum number of years I have to maintain the plan?

When the plan is first established, a permanency requirement applies. However, the plan may be terminated for legitimate business reasons (e.g., reduced income, owner retirement).

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Are employees required to receive benefits and contributions?

In general, yes. These are needed to satisfy various nondiscrimination requirements. However, employers maintaining a profit sharing 401(k) plan and a cash balance plan can sometimes make the majority (if not all) of the required employee contributions into the 401(k) plan.

Can I change the contribution amount?

Yes. However, a significant change requires a signed plan amendment. You may want to limit the number of amendments to the cash balance plan to avoid additional scrutiny if audited. If you also maintain a 401(k) plan, you may be able to reduce its contributions prospectively. Therefore, it is important to look at the 401(k) plan/cash balance plan arrangement holistically and plan ahead.

There are multiple owners/partners in my business. How is this handled?

Just like any employer-provided benefit, you may want to allocate the cost of the cash balance plan contribution to each owner/partner. If Partner A is receiving a $100,000 annual contribution, Partner A's portion of the business's income may be reduced by $100,000. This can be accomplished through agreements made outside of the plan. Please note that the plan's written benefit formulas are approved by the employer, not by an individual partner.

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Maximum 1st year contribution credit

Age	Compensation			
	$360,000	$200,000	$150,000	$100,000
20	$48,000	$48,000	$48,000	$48,000
25	$62,000	$62,000	$62,000	$62,000
30	$79,000	$79,000	$79,000	$79,000
35	$102,000	$102,000	$102,000	$102,000
40	$130,000	$130,000	$130,000	$130,000
45	$167,000	$167,000	$167,000	$159,000
50	$215,000	$215,000	$215,000	$152,000
55	$275,000	$275,000	$213,000	$142,000
60	$353,000	$261,000	$196,000	$130,000
65	$361,000	$235,000	$176,000	$117,000
70	$368,000	$204,000	$153,000	$102,000
75	$308,000	$171,000	$128,000	$85,000

How can Blue Ridge Associates help?

Blue Ridge Associates has a team of experienced actuaries who specialize in designing Cash Balance Plans tailored to your unique needs and goals. Contact us to explore how a Cash Balance Plan could help maximize retirement savings and support your long-term objectives.

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