

## Maximizing Your Retirement Benefits: Your Essential Guide to Cash Balance Plans

You have probably heard the term “cash balance plan”, but what exactly does it mean, and how can embracing such a plan significantly boost your retirement savings? Explore the details below to discover the benefits of these plans, their key features, important considerations, and more:

A Cash Balance Plan (CBP) is a type of defined benefit (DB) plan that offers higher tax-deferred savings compared to a 401(k)-profit sharing plan. A CBP offers benefits through a single account that’s managed for all participants, with contribution credits and interest credits building up over time. This is different from defined contribution (DC) plans like 401(k)s, where your retirement benefit in a CBP is a promised future benefit amount depending on contribution credits and interest credits.

### Key Features of a Cash Balance Plan

1. The structure is different from other retirement saving plans where contribution credits and interest credits accumulate in a hypothetical account.\* The actual assets are pooled, and benefits are paid from this pool.
2. Allow for significantly larger contributions than a 401(k), offering significant tax-deferred savings opportunities.
3. Offer more flexibility in allocating benefits to different employee groups and can be adjusted periodically. This is helpful for businesses who want to reward key employees while maintaining overall costs.
4. Contributions are mandatory and determined by factors such as investment performance, actuarial assumptions about future payouts and employee demographics. The plan sponsor bears the investment risk, not the employee. Participants receive clear and understandable statements of their hypothetical account balance and the plan guarantees a specific benefit amount annually, providing more predictability and security.

### Qualities for the Ideal CBP Candidate

1. High need for tax deduction
2. Maintains a surplus of funds and consistent cash flow
3. Seeks additional savings avenues beyond traditional 401(k) plans
4. Typically, but not required, a small number of employees with a select few employees holding key positions
5. Consistently high income with year-to-year stability



## Should I Integrate a CBP With My Existing 401k Plan?

The short answer is yes! Integrating a cash balance plan with a 401(k) can optimize tax savings for your business and enhance benefits for key employees while still meeting nondiscrimination requirements for other employees. On average, adding a cash balance plan generally increases overall employer contributions to employee accounts from 3% - 5% of compensation, making them a popular choice for businesses looking to enhance their retirement offerings. Be aware that if you plan to implement a CBP into your company, it is best to review your existing 401(k) plan to ensure the two are working together.

## What Additional Things Should I Consider?

Unlike a 401(k), cash balance plans require mandatory contributions, which are calculated based on the plan's performance and actuarial assessments. CBP are best used over several years (targeting at least 5 years of deductions). These are meant to potentially drive large deductions and not something that is easily turned on and off year to year.

Overall cash balance plans can be a valuable tool for retirement and tax planning, particularly when combined with a 401(k) plan. Each cash balance plan must be adopted by the tax filing deadline of the year they are to be effective.

## Key Takeaways

- **Guaranteed Benefits:** CBPs provide a guaranteed retirement benefit based on compensation and service, offering more predictability compared to 401(k) plans.
- **Larger Contributions:** CBPs allow for significantly larger tax-deferred contributions than 401(k) plans, maximizing retirement savings.
- **Integration with 401(k):** Combining a CBP with a 401(k) plan can enhance overall tax savings and benefits, but may require adjustments to the existing 401(k) plan.

## Contact Us

WPWealth's team of financial advisors are available to assist you in tailoring your cash benefit plan to your specific needs.



**Matt Magee, CFP®**  
WPWealth Manager  
Matt.Magee@WPWealth.com

*\*A hypothetical account refers to an account within a cash balance plan that is used to track and calculate the benefits for participants. Unlike an actual individual account in a 401(k) plan, which holds real assets and reflects investment returns, a hypothetical account in a cash balance plan is a theoretical construct.*