



CBIZ Actuarial & Benefit Consultants

Cash Balance Plans

Your business is all about people. At CBIZ Actuarial & Benefit Consultants, so is ours. Our goal is to work with you to develop a successful retirement program that meets **your** objectives and allows you to attract and retain the quality employees you need to be successful.

What is a Cash Balance Plan?

A Cash Balance Plan is a defined benefit pension plan; however, it has certain characteristics of a defined contribution plan. As a defined benefit plan, the benefit formula determines the amount of benefit that a participant will be entitled to at normal retirement age. However, a cash balance plan differs from a traditional defined benefit formula in that a hypothetical cash balance account is maintained for each participant by adding contribution credits (e.g. 5% of pay) and interest credits. The interest credits are specified in the plan document (e.g. 4%), not necessarily based on actual asset performance. Thus, the sum of the cash balance accounts doesn't necessarily equal the value of the plan's assets. If the hypothetical accounts exceed the plan's assets, future contributions are higher than contribution credits, and vice versa.

How are contribution credits determined? Must contributions credits be uniform?

Similar to defined contribution plans, cash balance plans generally provide annual pay-related contribution credits. The contribution credits are determined based upon the terms of the plan subject to IRS maximum limits. For example, the contribution credit may be stated as an annual employer contribution of 3% of the participant's compensation.

The contribution credits are not required to be the same for all employees. If the contribution credits differ for different classifications of employees, these non-uniform benefits must pass non-discrimination testing each year. In addition, like a traditional defined benefit plan, cash balance plans must provide employees with meaningful benefits.

How is the interest credit determined? Are there any limits on the rate of interest credited?

The terms of the plan will determine the interest credits to be provided to hypothetical cash balance accounts. The rate of the interest credit must be the same for all employees. The rate can be a constant or variable rate. If the rate is variable, the plan must state the basis of the variable rate and the length of time (not to exceed one year) that the rate applies. In addition, the plan can limit the variable rate to a maximum, a minimum, or both.

CBIZ Actuarial & Benefit Consultants
Phoenix, AZ 602.277.2371
San Jose, CA 408.794.3536
Denver, CO 303.790.0825
Houston, TX 713.871.1118



What are the advantages of a Cash Balance Plan over a traditional defined benefit plan?

Some of the advantages of a Cash Balance Plan include:

- Employers generally find it easier to communicate the value of the benefits being provided to employees because a cash balance benefit is stated in the form of an account balance.
- Cash Balance Plans generally provide employers with a contribution obligation that is more predictable than a traditional defined benefit plan.
- Having the option of an immediate lump-sum payout reduces the administrative burden of tracking former employees. In addition, many employees like the option of a lump sum distribution upon termination of employment.
- A Cash Balance Plan equalizes the contribution credits among participants of different ages, but who may do the same job at the same rate of pay. Under a traditional defined benefit plan, this would be virtually impossible.
- Cash Balance Plans provide a greater accumulation of benefits for younger and shorter service participants where traditional defined benefit plans generally have a greater value of benefits for longer service participants.
- Because they are defined benefit plans, Cash Balance Plans generally provide employees greater protections, including protection from loss due to poor investment performance and protection provided by the Pension Benefit Guaranty Corporation, if applicable.
- Employees may find Cash Balance Plans advantageous because the interest credited is based on an established rate rather than being dependent upon the investment performance of an actual account as in a defined contribution plan.