CASH BALANCE PLANS

A Quick Overview

What is a Cash Balance Plan?

- A type of defined benefit pension plan.
- Provides a hypothetical account balance that grows annually through employer contributions and interest credits.

How Do They Work?

1. Hypothetical Account:
- Each participant has an account credited with pay and interest credits.

2. Employer Contributions:
- Based on actuarial calculations.

3. Interest Credits:
- Fixed or variable rate.

4. Benefit Distribution:
- Lump sum or annuity at retirement.

Pros:

- Predictable retirement benefits.
- Higher contribution limits, especially for older employees.
- Tax-deductible employer contributions.
- Tax-deferred growth.

Cons:

- Complex and costly administration.
- Employer bears investment risk.
- Less flexibility in investment choices.

Tax Advantages:

- Employer contributions are tax-deductible.
- Growth is tax-deferred until distribution.
- No immediate taxation for participants.

Target Audience:

- Small business owners.
- High-income earners.
- Older employees needing to catch up on retirement savings.

Example (2024 Numbers):

Grace, Age 55:

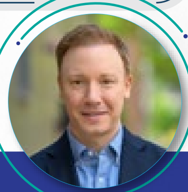
- **Cash Balance Plan Contribution:** Up to **$275,000.**
- **401(k) Plan Contribution:** Up to **$69,000** (including catch-up).

Comparison to 401(k) Plans:

- **401(k) Contribution Limit (2024):** **$69,000** (including catch-up).
- **Cash Balance Plan Contribution Limit:** Significantly higher, e.g., **$275,000** for older participants.

Conclusion:

Cash balance plans offer higher contribution limits and predictable benefits, making them ideal for small business owners, high-income earners, and older employees. They provide significant tax advantages and the potential for substantial retirement savings.



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