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Cash Balance Plans Made Simple with Aprio's Retirement Plan Services

GO BEYOND THE LIMITS OF A 401(K) PLAN TO SUPERCHARGE RETIREMENT AND TAX SAVINGS WITH A CASH BALANCE PLAN.

It's true that 401(k) plans continue to be the most sought-after defined contribution plan where employers and employees contribute a fixed percentage into a retirement fund. However, some business owners maximize their 401(k) plans and would benefit from additional tax deductions and income in retirement. Opting for a Cash Balance plan, which is growing in popularity, could be the answer.

A Cash Balance plan is a type of defined benefit plan that offers the best of both worlds; the higher contribution limits of a traditional defined benefit plan and the ease of a 401(k) plan. Traditional defined benefit plans provide a "defined" benefit at retirement, whereas a Cash Balance plan provides that benefit as an account balance.

Boosting contribution limits

A distinctive benefit to Cash Balance plans, is that employers have the opportunity to increase contribution limits through the combination of qualified retirement plans. Outlined below are examples of annual contributions and potential tax savings when a Cash Balance plan is combined with a 401(k) profit-sharing plan.

Age	401(k)	401(k) with profit-sharing	Cash Balance	Cash Balance with 401(k) profit-sharing	Potential tax savings for employers*
60	$30,000	$73,500	$307,200	$357,000	$130,800
55	$30,000	$73,500	$235,000	$284,800	$130,800
50	$30,000	$73,500	$179,800	$229,600	$79,840
45	$22,500	$66,000	$137,600	$179,900	$62,960
40	$22,500	$66,000	$105,300	$147,600	$50,040
35	$22,500	$66,000	$80,600	$122,900	$40,160

2023 contribution limits, estimated for Cash Balance plans. 401(k) limit includes annual catch-up contributions for participants ages 50 or older. Actual results may vary depending on the plan design, participant compensation, employee demographics and projected retirement age. Exhibit assumes owner's Net Schedule C is at least $600,000 or W2 Compensation is at least $330,000. Profit Sharing for combined plans are limited to 6% of compensation.

*Based on assumed combined federal and state tax rate of 40%. Calculation uses "Combo Cash Balance with 401(k) Profit Sharing" excluding 401(k) contributions. Individual tax savings results will vary, the tax professional will be able to provide more specific results based on contribution amounts.

Appealing benefits of a Cash Balance plan

Despite potentially having higher administrative costs compared to a traditional 401(k), Cash Balance plans provide new opportunities for employers and plan participants that can offset those costs by dramatically increasing their tax benefits and retirement savings.

BENEFITS FOR EMPLOYERS:	BENEFITS FOR PLAN PARTICIPANTS:
✔ Easier for employees to understand	✔ Additional employer contribution to retirement savings
✔ Employers can contribute either a percentage of pay or a flat-dollar amount	✔ Less complicated than a traditional defined benefit plan
✔ Works well in combination with a 401(k) plan	✔ Can be distributed or rolled over to an IRA or another employer-sponsored plan
✔ Boosts benefits for owners and key employees while controlling staff costs	✔ Higher contribution limits for key employees
✔ Can be very helpful in making sizable catch-up contributions to prepare for retirement	✔ The plan sponsor bears the bulk of the investment risk

Who is an ideal candidate?

Since a Cash Balance plan has mandatory funding requirements on an annual basis, it may not be the right option for all companies. Employers who are interested in offering a Cash Balance plan should be confident that they have steady cash flow and profitability to meet the funding requirements. Additionally, investing the plan assets on behalf of the participants is the responsibility of the employer, which could require unanticipated contributions if investment returns do not keep up with the funding requirements. Conversely, if assets over perform, there could be less room for deductions and/or excise tax penalties.

Prospects for Cash Balance plans should include independent contractors and owner-only businesses with steady income and older business owners nearing retirement. Industries best suited for a Cash Balance plan include, but are not limited to:

- Professional Services
- Dental
- Family Businesses
- Sole Proprietors
- Healthcare
- Technology
- Organizations already maximizing contribution limits
- Highly Profitable Companies

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Are you ready for what's next?

Aprio's highly credentialed and experienced Retirement Plan Services team includes an Enrolled Actuary to provide you with the best options for your plan design and operations.

Contact Aprio's Retirement Plan Services team for a customized illustration to maximize your savings:

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