



Cash Balance Defined Benefit Plans

A Story Worth Telling

Founded in 1905, The Lafayette Life Insurance Company is headquartered in Cincinnati, Ohio. The company's Retirement Services Department offers administrative services for Defined Benefit, Profit Sharing, Cash Balance, and 401(k) Plans. These services include assistance with plan design, funding, trust documents, and preparation of government reports. Lafayette Life specializes in providing innovative plan design. An experienced and professional staff is prepared to assist you with your retirement objectives. Lafayette Life markets a portfolio of traditional life insurance in 49 states and the District of Columbia.

Find a Powerful Solution

Many small business owners wish they could have the best of both worlds for their retirement plan: combining the large benefit and tax deduction provided by a defined benefit plan with the portability and flexibility of a defined contribution plan. The solution may be a type of defined benefit plan referred to as a cash balance plan.

Cash Balance Plans

A cash balance plan is a *hybrid defined benefit plan*. As such, it allows employers to contribute more money for their employees than a 401(k) or profit sharing plan while still maintaining the look of a defined contribution plan. Rather than having a benefit that is defined as a series of payments as in a traditional defined benefit plan, the benefit in a cash balance plan is defined in terms of a stated account balance. This hypothetical "account balance" grows in two ways: first, by the required annual employer contribution and second, a guaranteed rate of return on the contribution.

The annual contribution is calculated based upon the plan formula and actuarial assumptions. Unlike a traditional defined benefit plan formula, the cash balance plan formula considers salary only. As a result this can be designed to equalize the contribution for owners or highly compensated employees with the same compensation but different ages. For older non-highly compensated employees, the contributions may be minimized.

Additionally, the cash balance plan can be combined with a 401(k) profit sharing plan to maximize the annual contribution. Consider the following sample contribution illustrating a cash balance/401(k) combo:

Sample Cash Balance/401(k) Plan Combination

Employee, Age, Salary	Safe Harbor 401(k) Profit Sharing	Cash Balance Account
Owner, 55 \$345,000	\$30,500 max. deferral with catch-up	\$249,118
Spouse of Owner, 52 \$55,000	\$30,500 max. deferral with catch-up	\$65,000
Employee A, 33 \$26,000	Safe harbor \$780 plus \$1,170 profit sharing	\$850
Employee B, 24 \$26,000	Safe harbor \$780 plus \$1,170 profit sharing	\$652

The examples shown are hypothetical in nature and used for illustrative purposes only. Values as of 1/1/2024.

Used as a centerpiece for attracting and retaining employees, a cash balance plan can provide large contributions for the owner and tax deductions for the business. The plan is easier to communicate than a traditional defined benefit plan because benefits are presented to participants as a hypothetical account balance. Also, older employees may have an acceleration of retirement savings because of greater contributions to fund their benefits. The cash balance plan provides a portable benefit that is attractive to owners in a mobile workforce. Upon termination or retirement, an employee's vested "account balance" may be paid generally as a lump sum or rollover to an IRA.



Lafayette Life Insurance Company

A member of Western & Southern Financial Group

Retirement Services

- DESIGN
- ADMINISTRATION
- FUNDING

Questions and Answers:

Q: *What is a Cash Balance Plan?*

A. A cash balance plan is a defined benefit plan that provides a contribution based on a percentage of salary and credits a rate of return on the contribution. It is considered a hybrid plan because it combines the contribution limits of a defined benefit plan with hypothetical "account balances" that look like a defined contribution plan.

Q: *How is the annual contribution calculated?*

A. The annual contribution is based on the plan formula and actuarial assumptions. Unlike traditional defined benefit plans, only salary is considered in the contribution formula. This may be advantageous to owners and highly compensated employees with the same compensation but different ages.

Q: *Are employee contributions permitted?*

A. No. Only employer contributions are allowed in a cash balance plan. The plan may be combined with a 401(k) profit sharing plan to allow employees to defer salary.

Q: *How are benefits defined in a cash balance plan?*

A. Benefits are defined as a hypothetical "account balance" for each participant. The accounts build steady value in two ways over an employee's working life: the annual contribution credits and a guaranteed rate of return on the contribution.

Q: *Do cash balance plans have a vesting schedule?*

A. Yes. One of the advantages of a qualified retirement plan is the vesting schedule. The vesting schedule requires employees to work for an employer for a specific period before becoming fully vested. A cash balance plan has a three year vested cliff (participants are fully vested after three years).

Q: *What are the advantages of a cash balance plan?*

A. A cash balance plan is a powerful retirement vehicle.

It combines the contribution limits and large tax deductions of a defined benefit plan with account balances that look like a defined contribution plan. It is ideal for a business with a consistent cash flow to fund the plan and for owners who are looking for a larger contribution and tax deduction than a 401(k) or profit sharing plan. It provides a pension plan that is easier for employees to understand than a traditional defined benefit plan and has a portable benefit upon termination or retirement.

Q: *How do I evaluate a cash balance defined benefit plan for my business?*

A. First, you need to meet with a representative from The Lafayette Life Insurance Company. The representative will collect census data and other pertinent information. A retirement plan proposal will be prepared based upon your objectives including funding goals.

Q: *How do I start a cash balance defined benefit plan?*

A. The steps are:

1. Review the retirement plan proposal presented by your Lafayette Life representative.
2. Adopt the plan by signing the Adoption Agreement.
3. Fund the plan.

Q: *Why should I select Lafayette Life?*

A. Lafayette Life is not a newcomer to qualified retirement plans. We have been providing services and funding products for over 50 years.

The advantages we offer are:

- ▶ One service provider for the plan document, funding, annual valuation and federal filings.
- ▶ Consultation and evaluation by an experienced pension staff.
- ▶ Your local representative services the account.

Life insurance and annuity products are not bank products, are not a deposit, are not insured by the FDIC nor any other federal entity, have no bank guarantee and may lose value.

The Lafayette Life Insurance Company does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Lafayette Life cannot guarantee that the information herein is accurate, complete, or timely. Lafayette Life makes no warranties with regard to such information or results obtained by its use, and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Please consult an attorney or tax professional regarding your specific situation.

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