

Cash Balance Plans



You are likely familiar with 401(k) plans and profit-sharing plans, and may have even established such a plan for your employees. The maximum contribution that can be made for owners and targeted individuals under these kinds of plans is \$66,000 in 2023 (\$73,500 if the individual is age 50 or over and eligible to make “catch-up” contributions).

Depending on their fiscal circumstances, business owners may want to make larger tax-deductible contributions toward their own retirement benefits. Assuming they are already maximizing their contributions to their 401(k) plan, the next step would be to consider a cash balance plan.

A cash balance plan is a form of defined benefit plan with contributions that can exceed \$300,000 for highly paid owners, depending on their age. Cash balance plans have plenty of benefits, but they also have less funding flexibility than a 401(k) or profit-sharing plan. It's very important for the business to have a steady stream of expected earnings and profits for the current year and at least the next three to four years.

The following types of plan sponsors are typically good candidates for a cash balance plan:

- Partners or owners who want to contribute more than \$73,500 a year to their own retirement accounts
- Companies already contributing 3 to 4 percent for their employees, or those willing to do so
- Partners or owners over 40 years old who want to accelerate their retirement savings. The ability to skew contributions toward owners and targeted employees is highly dependent on the demographic makeup of the employee population. Ideally, 30-50 percent of the regular employees would be 10-15 years younger than the youngest owner.

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Jennings Financial Planning can provide more details about how cash balance plans work, tax advantages and contribution information. If a cash balance plan isn't a good fit for you, we can help you evaluate other options.

As fiduciaries, we are legally obligated to do what's in the best interest of our clients. At Jennings Financial Planning, we work one-on-one with companies to find the best retirement plan solution for their business and employees.

