ACTUARIAL SERVICES
for Cash Balance Plans

We help private sector businesses and public sector entities achieve your retirement program goals.

As a type of defined benefit pension plan, cash balance plans can help employers attract and retain employees through enhanced benefit security, and maximize annual tax-allowable contributions to "qualified" deferred compensation arrangements through current (versus future) tax deductions.

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The Basics

Cash balance plans provide for fixed employer contributions as a credit to each participant account at the end of each year. The credit can either be a percentage of compensation or a flat dollar amount. In addition, participants receive interest credits based on the interest rate defined in the plan. The credit is either a fixed rate or a variable rate that is linked to an index such as the one-year Treasury bill rate. The accounts are hypothetical accounts and the increases or decreases in the value of the plan investments do not directly affect the benefits promised to participants. Investment risks and rewards are borne solely by the employer.

When participants retire, their benefit will be the value of the hypothetical account. This lump sum value is converted to a monthly pension at retirement. A cash balance plan may also permit a vested participant to choose (with spousal consent) to receive their accrued benefit in a lump sum. The participant can then roll that distribution into an Individual Retirement Account (IRA) or to another employer plan if that plan accepts rollovers, making cash balance plans portable and appealing to participants.

Flexible Plan Design Options

Similar to "traditional" defined benefit pension plans, cash balance plans can be stand-alone or combined with existing defined contribution plans (i.e. 401(k)/profit sharing plan), and can often use customized provisions to provide competitive retirement benefits for employees, or to maximize contributions and benefits for owners and key employees. Prime candidates to benefit from implementing a cash balance plan are professional groups such as law firms, medical practices, engineering or architectural firms, and other organizations with consistent, positive cash flow and highly compensated owners and employees in their peak earning years.

Maximum Allowable Contributions

Maximum allowable contributions to a cash balance plan can exceed the $55,000 (2018 Plan Year) limit in a defined contribution plan. The combination of a cash balance plan and a defined contribution plan, for example, can provide a significant increase in the maximum allowable contributions and benefits for the business owner, with relatively modest additional contributions and benefits for all of the other employees. Cash balance plans can also be used to transfer non-qualified deferred compensation plan benefits into a qualified plan; thus providing the firm with current as opposed to future tax deductions.

Managing Investments

Assets in the plan are not allocated to participants and participants cannot direct the investment of their accounts. The pooled fund is invested by the Trustees or Investment Advisors for the plan. Gains or losses from investments reduce or increase the plan sponsor contribution. Since interest credit guarantees cannot exceed market rate of return, assets may be invested conservatively.

Contact Us

Newport Group actuaries provide a range of services and solutions to help you design, manage, and administer defined benefit pension plans and comply with accounting, regulatory, and legal requirements. To learn more, please contact us at **855-751-2127** or visit us at **newportgroup.com**.

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To learn more about actuarial services for cash balance plans, contact your Newport Group representative at **newportgroup.com.**

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