



## MARTIN, MARTIN, RANDALL & ASSOCIATES, INC.

# Is Cash Balance right for your client?

### *Special points of interest:*

- Can be offered in addition to a 401(k) plan
- Costs can be more expensive to maintain
- This plans contributions are **required** to be contributed annually
- CB plan assets are protected from creditors
- Can be used as a tool to facilitate business succession planning.

### *Key Benefits:*

- Accelerating retirement savings
- Can appeal to future employees to help attract and retain good employees
- Ability to contribute different amounts to specified groups
- This plan is portable allowing participants to roll to an IRA or another qualified plan

## *What is a Cash Balance Plan?*

A Cash Balance plan is a type of IRS-qualified retirement plan known as a “hybrid” plan. In a Cash Balance Plan, each participant has an account that grows annually in two ways: first, an employer contribution and second, an interest credit, which is guaranteed rather than dependent on the plan’s investment performance.

## *How does a Cash Balance Plan work?*

The annual interest credit is guaranteed and is not dependent on the plan’s investment performance. The interest credit is usually tied to the 30-year Treasury Securities Interest Rate (as defined annually by the IRS), which in recent years has been around 5%. When participants terminate employment, they are eligible to receive the vested portion of their account balance.

## *How are Cash Balance investments handled?*



Plan assets are pooled and invested by the trustee or investment manager. If the plan’s investment earnings exceed the guaranteed rate, the excess will be used to reduce future employer contributions. This will not affect the amount that is credited to the participants’ accounts. Conversely if the plan’s investment earnings are less than the guaranteed rate, then future employer contributions will be increased. This make-up is

typically spread out over seven years. A wide range of investment vehicles can be used by the plan sponsor to achieve the interest crediting rate.

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**SAMPLE SMALL COMPANY**  
**A Combination 401(k)/ Profit Sharing/ Cash Balance Plan**  
**For the Plan Year 01/01/2017 - 12/31/2017**  
**CONTRIBUTION REPORT - DETAIL**

P	O	H	Class	Last Name	First Name	AA	RA	Considered Earnings	Cash Balance		401(k) Deferral	Safe Harbor	Profit Sharing		Total Contribution				
									Amount	%			Amount	%	Amount	%	Cost	%	% of Total
*	*	*	A	OWNER	DR	60	65	265,000	150,000	56.6	24,000	0	35,000	13.2	209,000	78.9	209,000	78.9	60.1
*	*		C	OWNER	SPOUSE	53	65	60,000	3,000	5.0	24,000	0	12,000	20.0	39,000	65.0	15,000	25.0	4.3
*	*	*	D	JUNIOR	OWNER	53	65	265,000	50,000	18.9	24,000	0	13,250	5.0	87,250	32.9	87,250	32.9	25.1
			B	1	HOURLY	28	65	30,720	768	2.5	922	922	1,229	4.0	3,840	12.5	2,918	9.5	0.8
			B	1	SALARY	35	65	65,040	1,626	2.5	1,951	1,951	2,602	4.0	8,130	12.5	6,179	9.5	1.8
			B	2	HOURLY	29	65	21,678	542	2.5	650	650	867	4.0	2,710	12.5	2,059	9.5	0.6
			B	2	SALARY	37	65	119,328	2,983	2.5	3,580	3,580	4,773	4.0	14,916	12.5	11,336	9.5	3.3
			B	3	HOURLY	37	65	28,021	701	2.5	841	841	1,121	4.0	3,503	12.5	2,662	9.5	0.8
			B	3	SALARY	29	65	48,818	1,220	2.5	1,465	1,465	1,953	4.0	6,102	12.5	4,638	9.5	1.3
			B	4	HOURLY	32	65	20,800	520	2.5	624	624	832	4.0	2,600	12.5	1,976	9.5	0.6
			B	5	HOURLY	31	65	24,762	619	2.5	743	743	990	4.0	3,095	12.5	2,352	9.5	0.7
			B	6	HOURLY	27	65	24,960	624	2.5	749	749	998	4.0	3,120	12.5	2,371	9.5	0.7

Legend: P- Principal, O- Owner, H- Highly Compensated Employee

**CONTRIBUTION REPORT - SUMMARY**

	Considered Earnings	Cash Balance		401(k) Deferral	Safe Harbor	Profit Sharing		Total Contribution				
		Amount	%			Amount	%	Amount	%	Cost	%	% of Total
<b>Principals</b>	590,000	203,000	34.4	72,000	0	60,250	10.2	335,250	56.8	311,250	52.8	89.5
<b>Non-Principals</b>	384,127	9,603	2.5	11,524	11,524	15,365	4.0	48,016	12.5	36,492	9.5	10.5
<b>Grand Total</b>	974,127	212,603	21.8	83,524	11,524	75,615	7.8	383,266	39.3	347,742	35.7	100.0