APC

Associated Pension Consultants

Cash Balance Defined Benefit Pension Plan

A "Cash Balance" Plan is a defined benefit plan that communicates its benefits in terms characteristic of a defined contribution plan. Instead of earning a stated monthly benefit at retirement age, a participant has a hypothetical "account" receiving annual pay credits. Pay credits would be based on a percentage of wages or dollar amount. Pre-defined interest credits are allocated as earnings on these pay credits annually. At the point of distribution from the plan, participants receive the value of their hypothetical account rather than a stated benefit. The contributions by the employer to the plan are determined actuarially based on the benefits promised in the hypothetical accounts.

Key Plan Highlights and Commitments

Highlights

- Allows for large tax deductions and rapid accumulation of assets in a short period.
- Allows for higher benefits for participants closer to retirement.
- Ideal for multiple partner businesses for predictability of cost splits and benefits owed.
- Provides more understandable data on benefits earned for each participant.

Commitments

- The plan is generally required to be sponsored for three or more years.
- Contributions are required on an annual basis based upon plan actuarial factors.
- Benefits are guaranteed, the employer assumes the burden of investment performance.
- Plan requires annual certification by an enrolled actuary (included in APC fees).
- May require government Pension Benefit Guaranty Corporation premium payments.

Sample Cash Balance Plan Allocation

Cash Balance Plan Account Representation

Participant	Age	Compensation	Pay Credit	Interest Credit	Hypothetical Balance
Owner #1	58	$265,000	$102,000	$5,100	$107,100
Owner #2	44	$265,000	$50,000	$2,500	$52,500
Employee #1	26	$38,000	$2,850	$143	$2,993
Employee #2	35	$42,000	$3,150	$158	$3,308
Employee #3	33	$51,000	$3,825	$191	$4,016