RANDALL & HURLEY

CASH BALANCE PLAN SUMMARY

A cash balance plan (“CB Plan”) is a type of defined benefit plan (“DB plan”) with the look and feel of a defined contribution plan (“DC plan”). A cash balance plan is referred to as a “hybrid” plan design because it has similarities with both DC plans and traditional DB plans.

Comparing CB plan features to traditional DB and DC plans may help in understanding the “hybrid” nature of a CB plan.

	Similar to DC Plans	Similar to DB Plans
Each participant in the plan has an account that increases each year in two ways: (1) first by a contribution credit; and (2) second by an interest credit. That is, the account balance at the end of the year is the beginning of year balance plus the contribution credit plus the interest credit (less any withdrawals).	✓	
The contribution credit can be a percentage of pay or a flat dollar amount.	✓	
The contribution credit must be clearly defined in the plan (i.e., it cannot be discretionary).		✓
The interest credit is guaranteed (e.g., 5% each year) rather than being based on the actual plan investment performance (this guarantee is made by the Plan Sponsor). The interest credit can also be tied to a performance measurement (e.g., High-yield Corporate Bonds rates, Treasury rates, etc.).		✓
The account balance is referred to as a “hypothetical account balance” because the sum of all of the balances generally does not equal the sum of all of the assets in the plan (whereas, in a DC plan they are equal).		✓
The maximum benefit is similar to a traditional DB plan. As a result, larger tax deductions and accelerated retirement savings are possible (depending on the age of the participant).		✓
Similar eligibility and vesting provisions are available. Please note the vesting schedule must be at least as generous as a 3-year cliff schedule.	✓	✓
Upon withdrawal the participant would receive the value of the vested account balance (as a lump-sum distribution).	✓	
Upon withdrawal the participant would also have the option to receive their benefit in the form of an annuity. An annuity is generally the normal form of payment (with a lump-sum equal to their account balance available). Spousal Joint and Survivor annuities are also required to be offered.		✓
There are required contributions each year (they are not discretionary). A range of contributions are determined – referred to as the Minimum Required and Maximum Tax Deductible. These contributions are determined under the funding rules for DB plans.		✓
Similar to other traditional DB plans as it relates to PBGC coverage, benefit restrictions, minimum participation, etc.		✓

The discussion above contains a general overview of cash balance plans. Randall & Hurley would be happy to set up a meeting to discuss this in more detail and help you determine whether a cash balance plan is right for you.

How to Get More Information

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