

MEETING THE NEEDS OF TODAY'S BUSINESS OWNERS CASH BALANCE

HOW DOES A CASH BALANCE PLAN WORK?

A cash balance plan is a hybrid plan combining features of both defined contribution and defined benefit plans. Technically a defined benefit plan, the employer determines benefit levels and bears responsibility for providing the specified level of benefits at retirement. Like most defined benefit plans, there are no participant contributions. Funds are pooled and managed as a single trust fund. Cash balance plans are subject to the benefit limits that apply to all defined benefit plans.

The plan expresses benefits in terms of hypothetical account balances for each participant. These hypothetical account balances are comprised of annual Contribution Credits and Interest Credits. In this sense, benefits are communicated to employees in much the same way as a defined contribution plan. Annual Contribution Credits may be constant or may increase based on advancing age and/or service. The Interest Credit is typically tied to an outside index, such as the one-year U.S. Treasury Bill rate. Credits are not subject to the limits that apply to defined contribution plans and may exceed \$72,000.

Cash balance benefits are typically payable as a lump sum upon termination of service at any age. This gives the cash balance plan the advantage of having completely portable benefits.

WHY ADOPT A CASH BALANCE PLAN?

FLEXIBILITY

Plan features afford the employer maximum flexibility to meet both cost and benefit objectives. Select employees can be favored and costs for rank and file employees can be controlled. Age-based or service-based plan design can provide higher allocation rates to older or longer-service plan participants when desired.

SIMPLICITY

Benefits are structured in a way that is easily communicated to employees. Employees are better able to appreciate the value of the plan since benefits are communicated in the form of a lump sum account balance.

SECURITY

Cash balance plans provide benefit security. Benefits at retirement are definitely determinable at any point in time and are guaranteed under the plan provisions. Additionally, benefits are fully protected from creditors under the Employee Retirement Income Security Act (ERISA)

TAX ADVANTAGES

As is the case with all qualified pension plans, contributions are fully tax-deductible to the employer and benefits accrue on a tax-deferred basis.



PLAN FEATURES

ELIGIBILITY

Employees are enrolled upon completion of the eligibility requirements selected by the employer. The employer may elect to exclude from participation certain classes of employees, provided IRS minimum participation and coverage requirements can be satisfied.

PLAN SALARY

Plan salary is used to determine benefits under the plan. Salary may be limited to base pay, or base pay plus bonuses, overtime and commissions. It may also be expanded to include total W-2 compensation. Plan salary is limited to \$360,000 in 2026.

BENEFIT FORMULAS

The plan's benefit formula is a fundamental plan design element. The benefit formula affects both the level of retirement income that the plan will provide and the plan's cost. Cash balance plans provide annual salary-related Contribution Credits in accordance with the plan's benefit formula defined in the plan document.

Vesting represents the non-forfeitable right to benefits under the Plan. Upon termination of employment, a vested member is entitled to a benefit from the plan, while a non-vested member is not. Cash balance plans must vest benefits in no more than three years.

FUNDING

INTEREST CREDITS

Individual hypothetical participant account balances are credited with a Contribution Credit and an Interest Credit each year. The Interest Credit rate is usually based on an index, such as the Consumer Price Index or a U.S. Treasury rate.

FUNDING METHODS

Employer contributions are determined using an actuarial funding method as is the case for any defined benefit plan. It is important to note that employer contributions are not equal to the sum of the annual participant Contribution and Interest Credits. For example, an overfunded plan may have no required employer contributions for a given year, despite the current year Contribution and Interest Credits.

Although Contribution and Interest Credits are credited to individual hypothetical accounts, actual plan assets are commingled for investment purposes. Participants may not direct the investment of their accounts. If the plan's investment performance exceeds the Interest Credit rate, the excess will be applied to reduce the employer's cost to fund the plan. Conversely, if investments underperform the Interest Credit rate, employee hypothetical account balances will still receive the stated Interest Credit and future employer contribution requirements may increase.



PLAN ADMINISTRATION

At ABG-Pentegra, we commit the resources to ensure that clients receive the quality administrative support critical to the success of any plan.

ADMINISTRATIVE SERVICES

- Plan Design and Implementation
- Document Preparation and Filing
- Consulting, Actuarial and Legal Support
- Plan Administration & Recordkeeping
- Compliance Testing
- Government Filings
- Annual Actuarial Valuation Reports
- Benefit Calculations
- Annual Employee Benefit Statements
- Summary Plan Descriptions

EMPLOYEE COMMUNICATIONS

Effective ongoing employee communications are critical to the success of any retirement program.

Each year your employees receive personal statements, illustrating their benefit under the plan. Typically, the statement will show a beginning of year account balance, the Contribution and Interest Credits under the plan for the year, and the end-of-year balance.

PLAN DESIGN

We develop plan designs to ensure the plan is consistent and in alignment with your goals and objectives.

With over 65 years of experience in developing effective retirement benefit programs, ABG-Pentegra provides clients with flexible, innovative solutions to help them meet their cost and benefit objectives.



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COMPARING RETIREMENT PLANS

Plan Features	Traditional Defined Benefit Plans	Defined Contribution Plans	Cash Balance Plans
How it works	Employees typically get a monthly retirement benefit based on years of service and salary in the last three to five years of employment.	Companies contribute a percentage of the employee's earnings each year. Employee account balances are credited with actual investment returns.	Companies credit a percentage of the employee's earnings each year. Employee accounts are credited with a guaranteed rate of investment return.
Who determines how the money is invested?	The employer's designated Trustees, subject to fiduciary responsibility	The employee and/or employer, based on plan provided options	The employer's designated Trustees, subject to fiduciary responsibility
Who bears the investment risk?	The employer	The employee	The employer
What if investments have higher-than-expected returns?	Employer funding requirements are reduced and potentially eliminated.	The employee keeps the money.	Employer funding requirements are reduced and potentially eliminated.
Is the benefit portable?	No. employees who leave before retirement receive a fixed benefit at retirement.	Yes. When employees change jobs, they can roll their pensions into an IRA or into their new employer's plan.	Yes. When vested employees change jobs, they can roll their benefits into an IRA or into their new employer's plan.

