my CBP

Frequently asked questions

What is a Cash Balance Plan (CBP)?

A Cash Balance Plan (CBP) is a type of defined benefit plan that looks and feels more like a profit sharing plan. The benefit of a Cash Balance Plan is that employers who sponsor them are generally able to deduct much higher contributions than they can with a 401(k) Profit Sharing Plan alone.

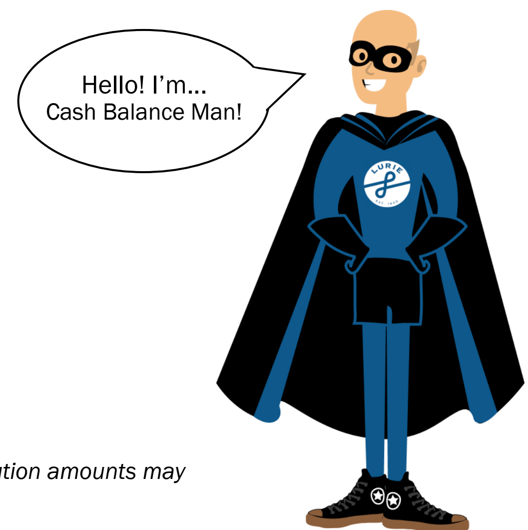
What type of business can establish a Cash Balance Plan?

A Cash Balance Plan can be set up for any type of business, including corporations, sole proprietorships, and partnerships.

How much can I contribute to a Cash Balance Plan?

Contributions to a Cash Balance Plan are based on age and compensation. The IRS has set up benefit limits so that an individual can accumulate $2.8 million in a Cash Balance Plan by age 62. Annual contributions are determined based on age, income and investment performance in the plan. Maximum contributions for an individual are below.

Age	401(k)	Profit Sharing	Cash Balance	Total
35	$ 18,500	$ 16,500	$ 66,000	$ 101,000
40	$ 18,500	$ 16,500	$ 87,000	$ 122,000
45	$ 18,500	$ 16,500	$ 113,000	$ 148,000
50	$ 24,500	$ 16,500	$ 148,000	$ 189,000
55	$ 24,500	$ 16,500	$ 194,000	$ 235,000
60	$ 24,500	$ 16,500	$ 254,000	$ 295,000
65	$ 24,500	$ 16,500	$ 266,000	$ 307,000



**The CBP contributions above are based on a normal retirement age of 62. Actual contribution amounts may vary.*

Can I still maximize my 401(k) Profit Sharing Plan if I set up a Cash Balance Plan?

Deductible contributions to a 401(k) Profit Sharing Plan may be limited if you establish a Cash Balance Plan. Generally, you will be able to contribute the $18,500 ($24,500 for those over age 50) 401(k) deferral limit plus an additional 6% discretionary profit sharing contribution. However, your contributions may be limited if you are participating in a 401(k) plan sponsored by another employer in the same year.

When are my contributions due to the plan?

Annual contributions are due by the earlier of the due date of the business tax return, with extensions and 8 ½ months following the end of the plan year (September 15 for a calendar year entity).

How does it work?

Each year, once your income is known, Lurie's actuarial team will calculate a deductible contribution range. As a plan participant, you will have a "Hypothetical Account" that is credited with a pay credit and an interest credit each year. The pay credit is typically a percentage of your income and the interest credit is generally between 4% and 6%.

Are contributions required every year?

Generally, yes. Annual contributions are required and the amount is determined by an actuary. As long as there are not large fluctuations in investment performance and annual income, the contributions should not fluctuate much from year to year.

How are the plan assets invested?

As a plan trustee, you can work with your investment advisor to determine the best investment strategy. You will want to keep in mind that the account should earn a moderate rate of return to match the interest credit in the plan (4%-6% annually in most years). Widely fluctuating investment returns will have an impact on your annual contributions.

What happens if I hire an employee?

Most plans have a waiting period before an employee becomes eligible for the plan. It will be important to let Lurie know when you hire an employee so we can evaluate if plan design changes are needed once he/she becomes eligible for the plan.

Can my spouse be included?

Absolutely. If your spouse is working in your business and earning a salary, he/she can be included in both the 401(k) Profit Sharing and Cash Balance Plans. This may give you an opportunity to contribute even more on a tax-deferred basis.

Can I terminate the plan at any time?

Cash Balance Plans are a type of defined benefit plan, which are required to follow a Permanency Requirement. However, there is IRS guidance that states that a plan may be terminated for a legitimate business reason. A few examples include business restructuring, a change in law affecting qualified plans, the substitution of another plan and financial hardship.

What happens if the plan is underfunded at plan termination?

Typically, you will have two options if the plan is underfunded at plan termination: make an additional contribution to cover the shortfall or waive your benefits to the extent that the plan is underfunded. At Lurie, we will work with you annually in determining your contributions to make sure that the plan does not become underfunded. However, there may be unforeseen circumstances that require you to waive benefits at plan termination.

What happens to the plan balances at termination?

Cash Balance Plan assets are qualified plan assets that are eligible for annuity payouts at retirement or lump sum distributions that can be rolled over to an IRA or 401(k) Profit Sharing Plan.

Are there any risks?

Contributions to a Cash Balance Plan are usually required each year until the plan is terminated. The IRS requires the plan is established with “permanency” in mind. Contributions may fluctuate from year to year based on the plan’s investment return. It is important to work closely with your investment advisor to set up the proper mix of investments in an attempt to avoid any unwanted fluctuations in contribution levels.