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Is cash balance plan right for your business? Now maybe the time to review your current program

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A cash balance plan is a type of tax-qualified defined benefit pension plan. If you and other highly-compensated employees are currently maximizing contributions to your company's 401(k) and profit-sharing plans, it can be a valuable plan addition to your retirement program.

As with traditional defined benefit pension plans, cash balance plans are subject to minimum funding standards, and must provide a specified accrued benefit at retirement. However, unlike traditional defined benefit pension plans, hypothetical "individual accounts" are used to communicate the current value of each participant's accrued benefit. Participants receive periodic statements showing the accumulation of "contribution credits" based on compensation, age and service, and "interest credits" based upon a market rate of return. Employer contributions are based upon actuarial projections, and earnings are credited to the plan's trust based upon actual investment performance. Distributions from cash balance plans are normally paid as an annuity, but lump sum benefits may also be available (with spousal consent) upon termination of employment.

A cash balance plan allows the plan sponsor to make tax deductible contributions for eligible employees determined under a nondiscriminatory formula, which may exceed the dollar limits for defined contribution plans. Cash balance plan contributions are in addition to amounts contributed for an employee to a defined contribution plan.

Potential candidates are companies with owners, partners or other highly compensated employees who may have neglected retirement savings to grow their business, or otherwise desire to catch up on retirement savings. Businesses should have consistent cash flows and profits since contributions are required on an ongoing basis to meet the minimum funding standards of the Internal Revenue Code. Cash balance plans require the services of an actuary to determine appropriate funding levels.

Your current retirement program may not be taking advantage of the additional benefits which can be provided through a cash balance plan. Now may be the time to review your current retirement program design to make sure you are fully maximizing your tax savings and retirement contributions. Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Smith Barney Financial Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise agreed to in writing by Morgan Stanley Smith Barney. This material was not intended or written to be used for the purpose of avoiding tax penalties that may be imposed on the taxpayer. Individuals are urged to consult their tax or legal advisors before establishing a retirement plan and to understand the tax, ERISA and related consequences of any investments made under such plan.

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