

Cash Balance Plans, Qualified and NonQualified Retirement Plans: Which is Right for Your Business?

The small-business owners we serve often have questions about implementing a cash balance plan or nonqualified retirement plan. These are two distinct plans that share a common goal: to accelerate retirement savings.

Topline differences between cash balance and nonqualified plans

- A cash balance plan is a qualified retirement plan operating under ERISA (Employee Retirement Income Security Act) guidelines.
 - It generally allows participants to make higher deductible contributions than they can make in a 401(k) plan.
 - It is subject to required contributions and nondiscrimination testing.
 - It helps employers reduce their tax liability.
- A nonqualified retirement plan does not operate under ERISA guidelines.
 - It is typically offered to highly compensated employees through various plan designs and benefit sources (such as stock, insurance, and bonuses).
 - It allows for higher contributions without required amounts or nondiscrimination testing.
 - It does not provide the tax benefits of a qualified retirement plan.

Employers may find a nonqualified plan's lack of contribution limits or compliance testing attractive. However, it lacks tax benefits to the employer, a guaranteed benefit, and creditor protection to the employee—all features of a qualified (and cash balance) retirement plan.

	Cash Balance Plan	Nonqualified Plan
Employer Taxation	Immediate tax deductions	No deduction available
Employee Taxation	Benefits are taxed upon cash distribution	Benefits are taxed upon cash distribution
Rollover	Rollover plan assets without paying taxes	Taxed payouts based on the plan's terms
Creditors	Creditor protected	Not protected by creditors
Benefit Limits	Subject to ERISA	None
Compliance Testing	Required	Not required
Contributions	Required annual contribution	Contributions not required
Benefits	Benefits are guaranteed	Benefits are not guaranteed

Your Intac FuturePlan consultant can explain the differences between these plans in greater detail and guide you to the best retirement plan design for your business.

