Cash Balance Plan vs. Non-Qualified Retirement Plan

Cash Balance Plans

are a type of qualified retirement plan under ERISA guidelines, offering higher deductible contributions compared to a 401(k) but requiring mandatory contributions and nondiscrimination testing. It provides tax benefits, guaranteed benefits, and creditor protection.

Non-Qualified Retirement Plans

are not governed by ERISA, allowing higher contributions to highly compensated employees without required contributions or testing. However, it lacks the immediate tax benefits, guaranteed benefits, and creditor protection that a Cash Balance Plan offers.

Key Differences:

- **Employer Taxation:**
  Immediate tax deduction for Cash Balance Plans, while Non-Qualified plans get a tax deduction at the time of distribution.
- **Employee Taxation:**
  Both tax benefits upon cash distribution.
- **Rollover:**
  Cash Balance Plans allow tax-free rollovers, but Non-Qualified plans are taxed based on the plan terms.
- **Creditors:**
  Cash Balance Plans are creditor-protected, whereas Non-Qualified plans are not.
- **Benefit Limits:**
  Cash Balance Plans are subject to ERISA, but Non-Qualified plans have no limits.
- **Compliance Testing:**
  Required for Cash Balance Plans, not for Non-Qualified plans.
- **Contributions:**
  Cash Balance Plans require annual contributions, but Non-Qualified plans do not.
- **Benefits:**
  Cash Balance Plans offer guaranteed benefits, while Non-Qualified plans do not.

In summary, while Non-Qualified plans offer flexibility, they lack some advantages like tax benefits, guaranteed benefits, and creditor protection, which are key features of a Cash Balance Plan.

Please contact your dedicated Plan Consultant if you have any questions.

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