

2016 National

CASH BALANCE **RESEARCH REPORT**

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Cash Balance Plans Increase 19%, Total Assets Now Surpass \$1 Trillion

Higher taxes and the need to catch up on retirement savings motivates business owners to add Cash Balance plans

Every year since 2008, Kravitz has published an in-depth analysis of the latest IRS Form 5500 filings for Cash Balance retirement plans. The annual growth in new plans, regional trends, asset growth and other statistics are provided as a reference for retirement plan professionals and others interested in learning more about Cash Balance plans.

Highlights:

- **The number of new Cash Balance plans increased 19% compared with just 2% for 401(k) plans:** Continuing almost a decade of double-digit annual growth, the Cash Balance plan market was up 19% in 2014, the most recent year for which complete DOL data is available. In contrast, the number of new 401(k) plans rose only 2%.
- **Market volatility and economic uncertainty have not slowed Cash Balance growth:** Despite a highly volatile market and global economic concerns, the adoption of new Cash Balance plans has continued to accelerate. Between 2008 and 2014, there was a 189% increase in new plans nationwide.
- **Cash Balance plan assets reached \$1 Trillion nationwide:** Total Cash Balance plan assets reached \$1T for the first time in 2014, a key indicator of their growing importance in the retirement plan marketplace. Plan sponsors added \$25B in contributions in 2014.
- **Cash Balance plans make up 29% of all defined benefit plans, compared with 2.9% in 2001:** The rise of Cash Balance plans has coincided with a steady decline in traditional defined benefit plans due to ongoing risk issues and cost volatility.
- **Small and mid-size businesses are the engine for Cash Balance growth:** 91% of Cash Balance plans are in place at firms with fewer than 100 employees.
- **New IRS regulations in 2010 and 2014 drove Cash Balance growth by allowing broader investment options and minimizing funding issues:** The 2010 and 2014 IRS Cash Balance regulations allowed for Actual Rate of Return and other investment options, making the plans more flexible and appealing to employers.

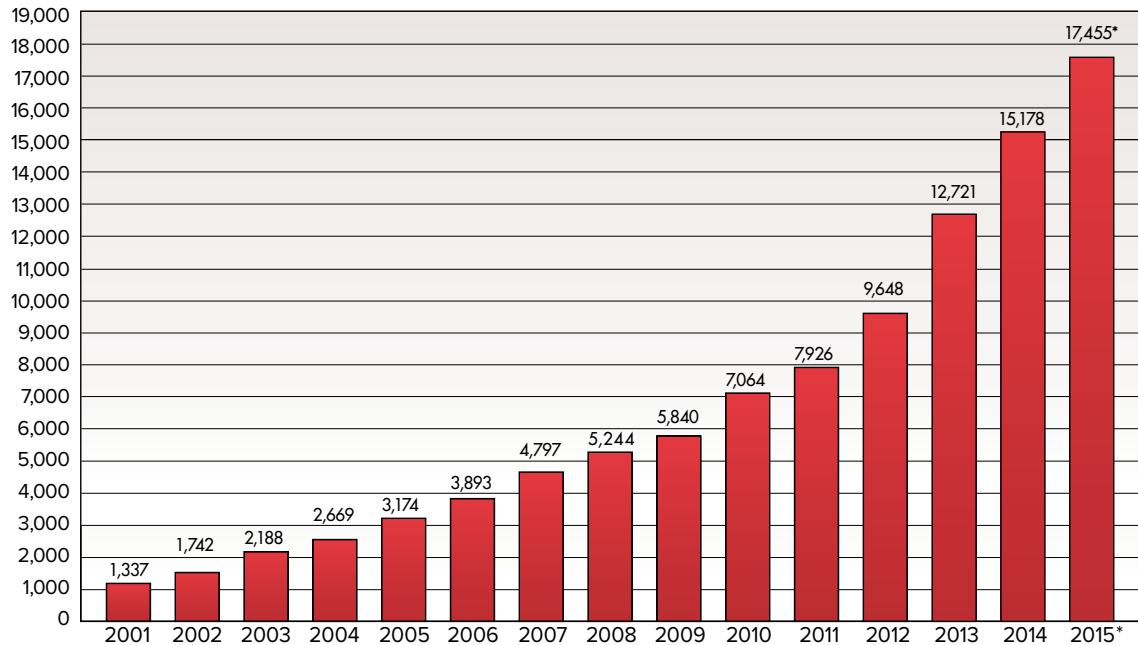
*Source: Analysis performed by Kravitz, Inc., using data from IRS Form 5500 filings via the Judy Diamond Associates, Inc. database. The 2014 plan year data is the most current complete data set available. Additional data on defined contribution and defined benefit plans comes from Private Pension Plan Bulletin Abstracts by the U.S. Department of Labor Employee Benefits Security Administration (EBSA), 2001 – 2013.



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Cash Balance Plans: Growth 2001 to 2015



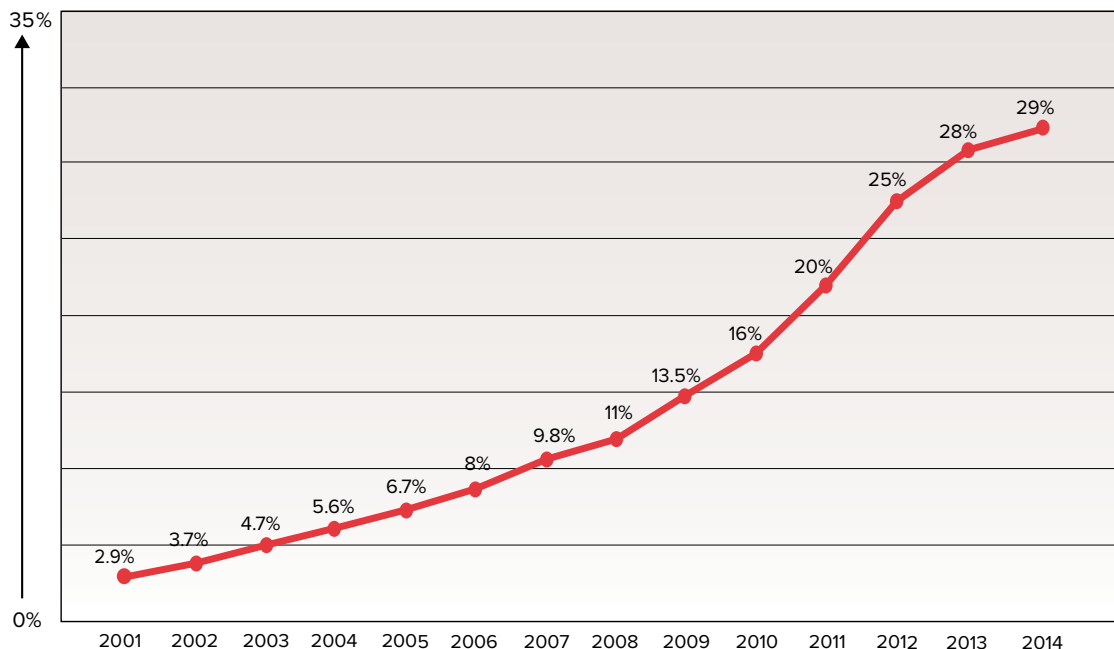
* Projection based on current growth rates and industry data.

The popularity of Cash Balance plans has soared since 2001, with double-digit annual growth each year of the decade and an increase of more than 1,035% in 14 years.

What's behind the remarkable growth in Cash Balance plans?

- **Rising taxes:** Rising federal, state and local tax rates have motivated many business owners to maximize tax-deferred retirement savings and take advantage of tax deductions for contributions to employee retirement accounts.
- **Hybrid appeal:** These “hybrid” plans combine the high contribution limits of a traditional defined benefit plan with the flexibility and portability of a 401(k) plan. They also avoid the common risk factors and runaway costs involved in traditional defined benefit plans.
- **Legislative changes and broader options for plan sponsors:** The 2006 Pension Protection Act affirmed the legality of Cash Balance plans and made the plans easier to administer. New IRS Cash Balance regulations in 2010 and 2014 expanded investment options, minimizing many funding issues.
- **Retirement savings crisis:** Media coverage of the Boomer generation’s lack of retirement preparedness is prompting older business owners to accelerate savings and maximize qualified plan contributions.

Cash Balance Plans As a Percentage of All Defined Benefit Plans

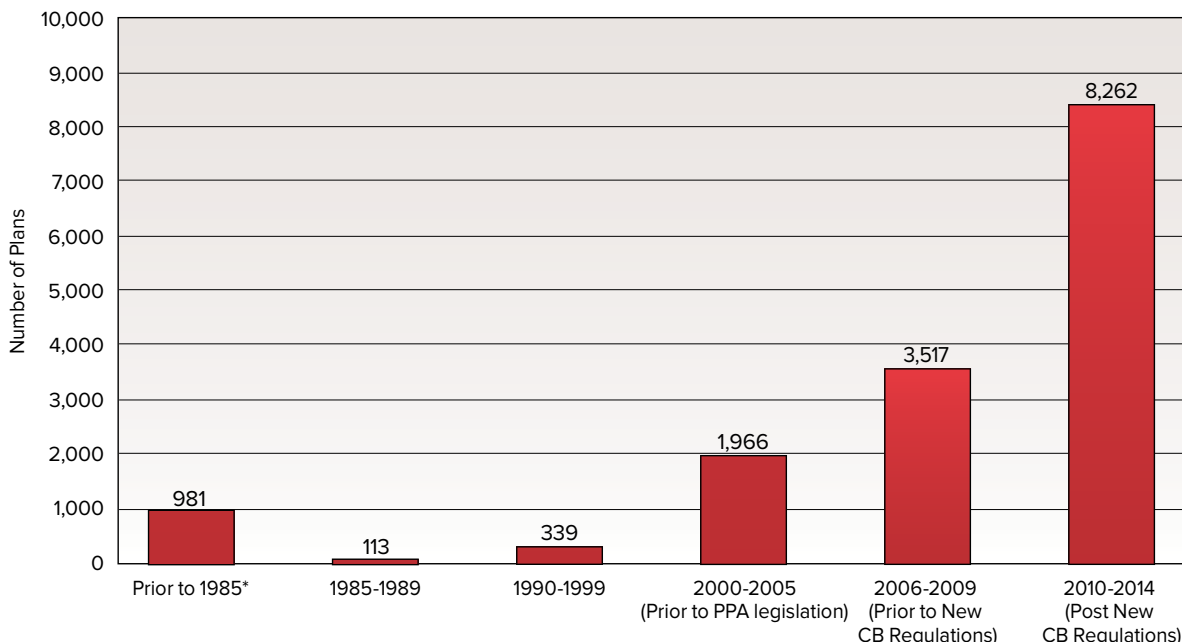


In just over a decade, Cash Balance plans have increased from less than 3% to 29% of all defined benefit plans. Traditional defined benefit plans have been steadily declining since the mid-1980s, due to a complex array of risk issues, runaway costs, and major changes in workforce demographics. Some larger corporations converted existing defined benefit plans to Cash Balance, while hybrid plans also became increasingly popular with small to mid-size businesses.

Why are Cash Balance plans rapidly replacing traditional defined benefit plans?

- **Lower risk:** Cash Balance plans remove the interest rate risk that led to constantly changing value of liabilities in traditional defined benefit plans.
- **Removing cost volatility:** The structure of a Cash Balance plan prevents runaway costs for employees nearing retirement age.
- **Easier for employees to understand and appreciate:** Cash Balance plans are similar to 401(k) plans in terms of showing individual account balances. Some plans even offer participant websites with daily updates.
- **Consistency and fairness:** These plans allow for more consistent contributions to employees, rather than uneven age-based contributions.
- **Full portability:** Account balances can be rolled over to an IRA, a necessary option for today's mobile workforce in which many employees change jobs every few years.

Cash Balance Plans By Year Established



* Plans with an effective date prior to 1985 are traditional defined benefit plans that were later converted to Cash Balance. The first IRS-approved Cash Balance plan was established in 1985 by Bank of America.

The number of Cash Balance plans nationwide has more than tripled since the Pension Protection Act (PPA) came into effect in 2006. The first Cash Balance plan was established by Bank of America in 1985, but the emerging hybrid segment of the retirement plan market remained relatively unknown for the next two decades.

How are legislative changes accelerating the growth of Cash Balance plans?

2006 Pension Protection Act: This law clarified IRS approval of the plans, removed any remaining uncertainty about their legal status, and introduced other changes that simplified implementation and administration. Thanks to this legislative shift, Cash Balance plans became a popular and viable choice for many small business owners.

2010 IRS Cash Balance regulations: New regulations published in 2010 provided greater clarity and expanded options for Interest Crediting Rates (ICR), making these plans even more appealing to employers. The new regulations also generated widespread media coverage and greater national awareness of the high contribution limits, tax advantages and recruitment/retention power of adding a Cash Balance plan.

2014 Final IRS Cash Balance regulations: Final regulations issued in September 2014 gave plan sponsors a compliance roadmap and greater investment flexibility, including the option to use fixed rates up to 6% and to include multiple investment options within a single Cash Balance plan.



Cash Balance Plans by Size: Participants

Participants	Number of Plans	Percent of Nation's Total
Over 10,000	253	1.7%
1,000 to 10,000	575	3.8%
100 to 999	573	3.8%
25 to 99	1,593	10.5%
10 to 24	3,499	23.0%
1 to 9	8,685	57.2%
National Total	15,178	

Total participants in Cash Balance plans nationwide: 12.3 million

Small to mid-size businesses continue to drive the growth of Cash Balance plans and the highest growth over the past five years has been in companies with fewer than 25 employees. Today, 91% of plans are in place at firms with fewer than 100 employees. Firms with 1 to 9 employees now account for 57% of all Cash Balance plans.

The largest plans (those with 10,000 or more participants) typically represent traditional defined benefit plans that were converted to Cash Balance. These conversions may increase in the next few years as an alternative to terminating financially troubled defined benefit plans.

What makes Cash Balance plans so attractive to small business owners?

- **Cost efficiency and tax efficiency:** After staff costs, taxes are usually the largest expenditure for small businesses. Cash Balance plans help owners with a significant tax deduction for employee contributions, plus generous tax-deferred retirement contributions for themselves.
- **Asset protection:** As with any IRS-qualified retirement plan, Cash Balance assets are protected in the event of a lawsuit or bankruptcy.
- **Catching up on delayed retirement savings:** Age-weighted contribution limits allow older owners to squeeze 20 years of savings into 10. Owners can typically double or triple their deferrals compared with a stand alone 401(k).
- **Attracting and retaining talented employees:** Defined benefit plans such as Cash Balance are more appealing to many employees than a typical 401(k) plan, and allow small business owners to offer a competitive recruitment advantage.

Cash Balance Plans: Company Contributions to Employee Retirement Accounts

Plan Type	2008	2009	2010	2011	2012	2013	2014
401(k) only*	3%	2.2%	2.2%	2.4%	2.6%	2.8%	3.1%
401(k) combined with a Cash Balance plan**	6.2%	5.8%	6%	6.2%	6.3%	6.3%	6.5%

Company contributions as a percentage of eligible participants' total annual payroll.

Companies typically double contributions to employee retirement savings when adding a Cash Balance plan

- **6.5% of pay** – average employer contribution to non-owner employees in companies with both Cash Balance and 401(k) plans.
- **3.1% of pay** – average employer contribution to non-owner employees in companies with 401(k) only.

Typically, Cash Balance plans require employers to contribute 5% to 8% of pay to non-highly compensated employees in order to contribute larger amounts for the owners. This is often more than double the contribution employees receive at firms with 401(k) alone.

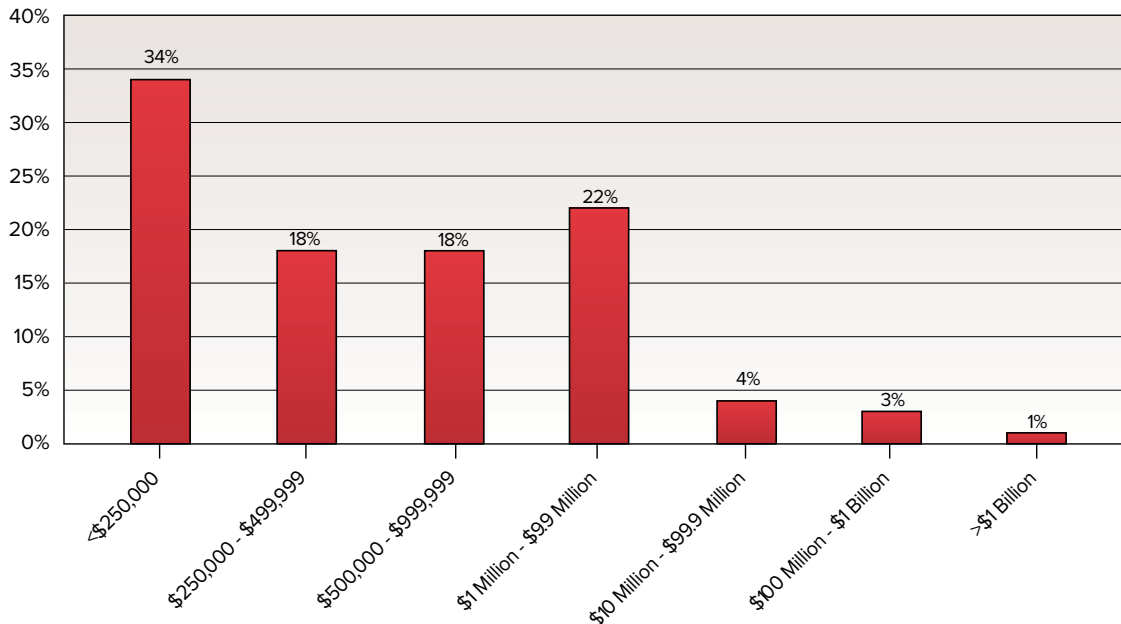
Cash Balance plans provide other advantages to employees:

- Employees do not have to reduce their take-home pay in order to receive an employer contribution, since Cash Balance contributions (sometimes also satisfied through a profit sharing plan) are not based on a “match.”
- Employees do not have to choose their own investments or bear any investment risk.
- Plan assets are pooled and typically invested by the plan sponsor using a conservative benchmark, so retirement savings are protected from market volatility.
- Portability: When employees leave or retire, they have the choice of an annuity option or a lump sum that can be rolled over to an IRA.

*Source for data on employer contributions to 401(k) plans, 2008-2014: Plan Sponsor Council of America (PSCA), *58th Annual Survey of Profit Sharing and 401(k) Plans*.

** Source for combination plans: analysis of Kravitz clients' contributions to employee retirement accounts.

Cash Balance Plans by Asset Size



Total assets in all Cash Balance plans nationwide: \$1T in 15,178 plans
Annual contributions for 2014: \$25.1 Billion

Total Cash Balance assets increased from \$952B in 2013 to \$1T in 2014. More than 75% of existing Cash Balance plans were established within the past nine years, after the 2006 Pension Protection Act clarified their legality. As relatively new plans, many still have assets under \$500,000. This asset profile will shift over the next decade, as many business owners seek to maximize tax-deferred savings for themselves and optimize tax-efficient contributions to employees.

For most firms, a Cash Balance plan is an “add-on” to an existing 401(k) profit sharing plan that already has significant assets. See page 15 for an overview of the most popular plan combinations.

Highlights: steady, stable growth

- The median asset size of a Cash Balance plan is \$476,259; the average is \$66 million.
- 30% of Cash Balance plans have assets over \$1 million.
- Cash Balance accounts increase each year in two ways: through an employer contribution (a flat amount or a percentage of pay) and through an interest credit. Both are specified in the plan document. See page 10 for a discussion of Interest Crediting Rates.
- The high percentage of plans with assets under \$250K reflects the large number of new start-up plans at small firms, typically with fewer than 10 participants.



Largest Cash Balance Plans by Asset Size

Top 10 Plans Overall	
1. IBM	\$56.7B
2. AT&T	\$54.5B
3. Boeing	\$30.7B
4. FedEx	\$21.3B
5. Alcatel-Lucent	\$20.4B
6. Bank of America	\$20.0B
7. United Technologies	\$18.9B
8. Honeywell International	\$16.9B
9. Northrop Grumman	\$16.6B
10. 3M	\$16.6B

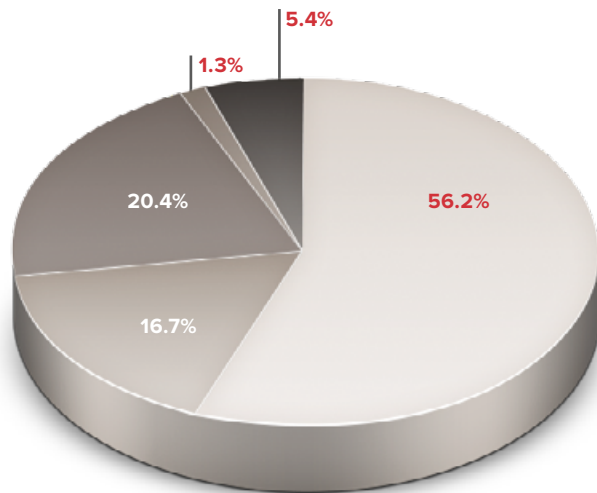
Top 10 Medical/Hospital Plans	
1. Sutter Health	\$3.6B
2. Massachusetts General Hospital	\$3.2B
3. Intermountain Healthcare	\$2.8B
4. Shands Healthcare	\$1.6B
5. North Shore University Hospital	\$1.3B
6. Brigham and Women's Hospital	\$1.2B
7. The Cleveland Clinic Foundation	\$1.2B
8. Memorial Hermann Healthcare	\$1.2B
9. Board of Trustees for Hospital Employees	\$1.1B
10. MedStar Health Inc.	\$1.1B

Top 10 Law Firm Plans	
1. Sidley Austin	\$721.7M
2. Skadden, Arps, Slate, Meagher & Flom	\$334.8M
3. Morgan, Lewis & Bockius	\$321.8M
4. O'Melveny & Myers	\$209M
5. Gibson, Dunn & Crutcher	\$187.1M
6. Jones Day	\$184.7M
7. Reed Smith LLP	\$144.1M
8. DLA Piper	\$142.5M
9. Kirkland & Ellis LLP	\$133.2M
10. Arnold & Porter LLP	\$130.8M

Cash Balance plans play a strategic role in retirement and benefits planning for many large firms

While the dramatic growth in new Cash Balance plans has been driven mainly by small and mid-size businesses, these tax-efficient plans are also offered by many leading national law firms, hospitals, and medical groups. Select Fortune 100 companies maintain large Cash Balance plans, some of which were converted from older traditional defined benefit plans (see page 4 for more details). For many large firms, Cash Balance plans are a key tool for recruiting and retaining talented employees in a highly competitive labor market.

Interest Crediting Rates Chosen by Cash Balance Plan Sponsors



Interest Crediting Rate	Percentage*
Fixed Rate of Return (ranging from 2% to 5.5%)	56.2%
30-year Treasury Rate	16.7%
30-year Treasury Rate with a floor (ranging from 3% to 4.5%)	20.4%
Actual Rate of Return	1.3%
Actual Rate of Return with ceiling (ranging from 3% to 6%)	5.4%

‘Actual Rate of Return’ and fixed rates rise in popularity

All Cash Balance plan participants receive an annual interest credit on their account balances, based on the specific **Interest Crediting Rate (ICR)** written into the plan document.

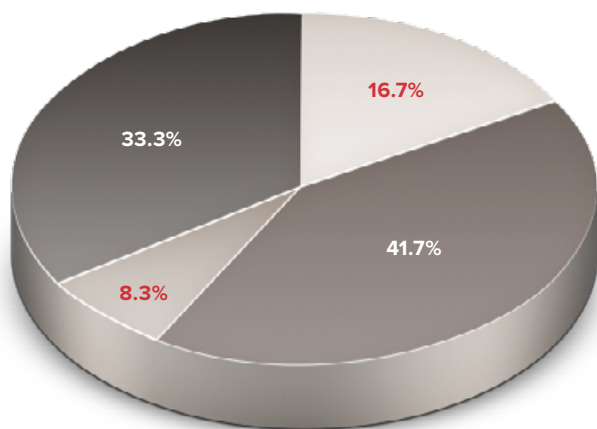
Prior to the new Cash Balance regulations published in 2010, an estimated 95% of Cash Balance plans used the yield on the 30-year Treasury bond, which averaged 4% to 5% over the past decade. The 2010 IRS regulations allowed many more options. Fixed rates have become the dominant choice, while Actual Rate of Return is a very popular option for larger plans (see page 11 for details).

Actual Rate of Return: this option allows plan sponsors to set the ICR to equal what the plan investments actually earn in the market (the “Actual Rate of Return”), rather than trying to target a specific interest rate every year. The employer’s investment risk is reduced considerably, and participants are protected by various investment rules.

Final IRS Cash Balance regulations released in September 2014 made Actual Rate Return an even more compelling option, as discussed on page 11.

* Based on Interest Crediting Rate (ICR) selections by 672 Kravitz Cash Balance clients.

Interest Crediting Rates Chosen by Large Cash Balance Plan Sponsors



Interest Crediting Rate	Percentage*
Fixed Rate of Return (ranging from 2% to 5.5%)	16.7%
30-year Treasury Rate	41.7%
30-year Treasury Rate with a floor (ranging from 3% to 4.5%)	8.3%
Actual Rate of Return with ceiling (ranging from 3% to 6%)	33.3%

Minimizing risks and maximizing investment options makes Actual Rate of Return appealing for larger plans

Soon after the 2010 Cash Balance regulations allowed plan sponsors to start using Actual Rate of Return as an ICR, we saw a significant shift in the large plan market away from the 30-year Treasury and toward Actual Rate of Return, typically with a cap between 5% and 6% to manage volatility. The employer's investment risk is reduced considerably, and participants are protected by various investment rules, including preservation of capital.

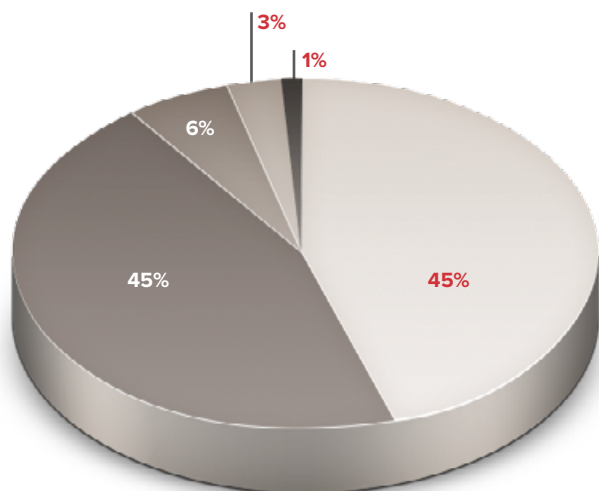
The final IRS Cash Balance regulations released in September 2014 made Actual Rate of Return even more compelling, since plan sponsors can now offer multiple investment options within a single plan, tailored to suit different retirement goals and needs.

Advantages of an Investment Choice Cash Balance plan:

- Meets diverse participant needs and goals
- Incorporates a range of investment strategies within a single plan
- Enhances flexibility for growing firms with many partners/shareholders
- Improves ability to attract and retain top talent

* Based on Interest Crediting Rate (ICR) selections by 24 Kravitz Cash Balance clients with large plans.

Cash Balance Plan Assets by Investment Category



Type of Investments	Percentage*
Equities or Equity Funds	45%
Bonds or Bond Funds	45%
Cash or Equivalents	6%
Balanced Funds	3%
Alternative Investments	1%

Plan sponsors and advisors face a challenging investment climate

As discussed on page 10 of this report, Cash Balance plans have an Interest Crediting Rate (ICR) written into the plan document, typically a safe harbor rate between 2%–4% or the “Actual Rate of Return” (ARR) on plan assets, with a cap between 5%–6% to manage volatility. Kravitz surveyed the investment portfolios of 413 Cash Balance plans representing \$1.14B in assets. It appears that due to the historic low interest rate environment, many plans are taking on considerable equity risk which may create problems due to overfunding and underfunding.

Guidelines for Cash Balance plan investing:

- With a one-year time horizon for annual actuarial certification and the need to minimize volatility, Cash Balance plans require a unique investment strategy very different from a 401(k) or a traditional defined benefit plan. This distinction presents an opportunity for financial advisors who understand the nuances and challenges of Cash Balance plans.
- High equity exposure in the plan’s portfolio may result in significantly underperforming or over-performing the ICR; instead, a strategically conservative investment approach is advised.
- Investment performance that exceeds the ICR may reduce future contribution amounts and thereby lower the tax deferral opportunity, and could also incur excise taxes in certain situations.
- Investment performance below the ICR results in increased future contribution levels, possible benefit restrictions to owners, and the requirement to make up shortfalls to any departing participants.

*Data based on a sample selection of 413 Cash Balance plans totalling \$1.14B in assets.

Cash Balance Plans: Regional Concentration

Rank	State	Number of Plans	Percent of Nation's Total	Percent Annual Increase*
1.	CA	1,974	13%	24%
2.	NY	1,566	10%	19%
3.	OH	1,011	7%	18%
4.	IL	1,010	7%	17%
5.	TX	932	6%	23%
6.	NJ	837	6%	14%
7.	FL	835	6%	23%
8.	PA	634	4%	11%
9.	MI	570	4%	17%
10.	MN	362	2%	17%
National Total		15,178		

*Increase in total number of plans between 2013–2014, the most recent year for which complete IRS Form 5500 data is available.

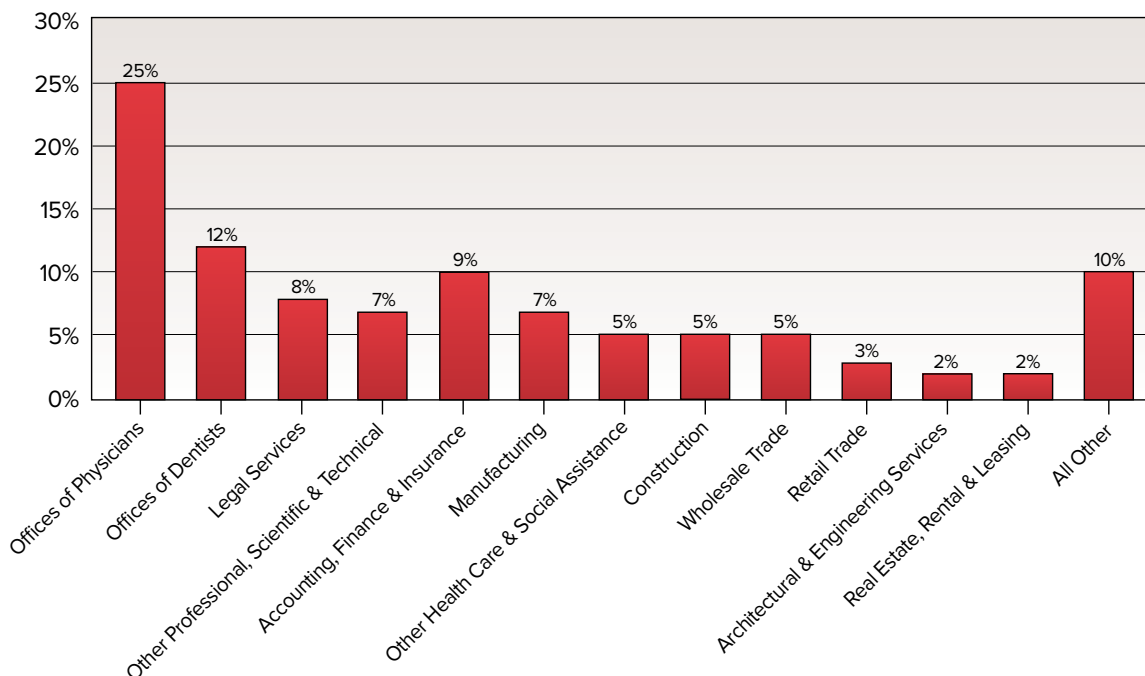
California and New York have lead the way in the Cash Balance sector for the last decade, and that trend continues. As of 2014, they account for 3,540 plans, or 23% of the national total. Along with California and New York, the fastest regional growth in new plans has been in Texas and Florida. Both states saw a 23% increase in the number of plans from the previous year.

Since new Cash Balance plans are most frequently adopted by successful, profitable small to mid-size businesses, their growth rates are a good indicator of the regional health of small business.

Other regional highlights:

- Each state in the Top 10 showed over 10% growth in total plans from 2013 to 2014 and more than half had an increase of over 15%.
- States with high concentrations of medical speciality groups and thriving small business environments typically show the highest annual growth in new Cash Balance plans.
- The Top 10 states remain the same from last year's list, with Ohio replacing Illinois at number 3.
- Georgia, Maryland, Virginia, Massachusetts, and North Carolina are all closing in on the Top 10 with almost 300 plans each.

Cash Balance Plans by Business Type

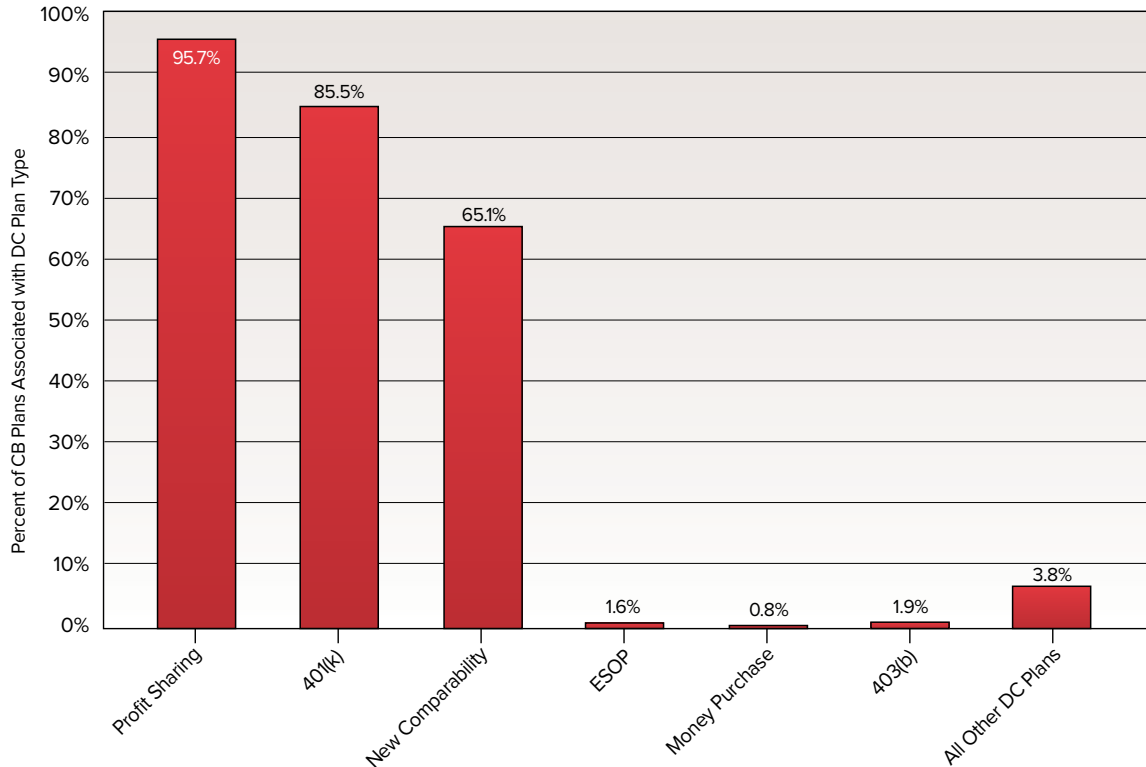


America's healthcare, technical, legal and financial sectors continue to lead the way in adopting Cash Balance plans. These plans are an excellent fit for the retirement needs of professional services firms, because of their flexibility for multi-partner firms and high age-weighted contribution limits which allow older owners to double or triple pre-tax retirement savings.

Cash Balance plan adoption across diverse business sectors:

- Manufacturing firms now account for 7% of all Cash Balance plans, a promising sign for the economy since owners need fairly predictable profit levels to meet the plan's financial commitments.
- Medical and dental groups account for 37% of all Cash Balance plans nationally, and we expect to see continued growth in the healthcare sector as the economy adjusts to the requirements of the Patient Protection and Affordable Care Act (PPACA).
- With many CPA and financial advisory organizations educating clients about Cash Balance plans, we expect even greater diversification of business types adding these plans.
- The "Other" category (10% of all Cash Balance plans) provides a compelling snapshot of the sheer diversity in types of businesses adopting Cash Balance plans. It includes everything from amusement parks to funeral parlors, film producers to auto detailers.

Defined Contribution Plans Associated with Cash Balance Plans



Plan combinations allow business owners to optimize tax efficiency and maximize retirement savings

- Very few firms have a stand-alone Cash Balance plan; today 96% offer Cash Balance plans in combination with one or more defined contribution plans. The most common combination is Cash Balance with a 401(k) and/or profit sharing plan, allowing business owners to maximize contribution levels, flexibility and tax efficiency.
- When a firm offers a combination of retirement plans, the IRS requires “cross-testing” to ensure fairness to all employee groups across all compensation levels. It is important to have an experienced, technically skilled actuarial consultant design a Cash Balance retirement program that will achieve the plan sponsor’s goals while passing all IRS tests every year.
- The average employer contribution to staff retirement accounts is 6.5% of pay in companies with both Cash Balance and 401(k) plans, compared with 3.1% of pay in firms with 401(k) alone (see page 7 for details).
- Thanks to steadily increasing demand for creative plan designs combining Cash Balance, 401(k) and Profit Sharing, top retirement plan consultants are finding new opportunities to develop a niche specialty with a competitive edge.

About Kravitz

Since 1977, Kravitz has brought its clients the latest in design, administration, and management of corporate retirement plans. Kravitz designed its first Cash Balance plan in 1989 and has become nationally recognized as an innovator and a leader in all aspects of Cash Balance plans. Today the firm manages more than 1,300 retirement plans across the country, including more than 700 Cash Balance plans.

Headquartered in Los Angeles, Kravitz has offices in New York, Chicago, and Atlanta, along with satellite offices in 11 other states. The Kravitz team of 80 employees includes 11 actuaries and many other highly trained and credentialed retirement professionals. Kravitz founded the Cash Balance Coach® training program in 2009, the only available Cash Balance certification program. More than 1,100 financial advisors and retirement professionals have enrolled, earning certification as Cash Balance Consultants. Kravitz has also published a book, *Beyond the 401(k)*, an industry bestseller on the topic of Cash Balance plans as a business growth strategy.

Learn more at CashBalanceDesign.com.

*For more information regarding Cash Balance plans,
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