


**Why You Need To Be In The
Cash Balance Business**



Why Cash Balance?

Today's Agenda

- ✓ Illustrate methods that may help you close more business
- ✓ Show plan designs that can increase assets and cash flow
- ✓ Help identify prospects
- ✓ Questions and Answers

Why Cash Balance?

KRAVITZ

- ✓ Design, administer and manage retirement plans
- ✓ October 15, 1977
- ✓ Headquarters in Los Angeles, California
- ✓ 75 Employees

Kravitz is the marketing name for the businesses of Kravitz, Inc. and Kravitz Investment Services, Inc. Kravitz, Inc. provides actuarial and consulting advice on the design and administration of retirement plans. Kravitz Investment Services, Inc. is a registered investment advisory firm that provides investment advice and asset management.

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Qualified Retirement Plans

- ✓ **Defined Contribution Plans**
 - 401(k) Plans
 - Profit Sharing Plans
- ✓ **Defined Benefit Plans**
 - Traditional Defined Benefit Plans
 - Cash Balance Plans

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Comparison

- ▣ **Defined Contribution Plans**
 - Participants have accounts
 - Contributions are discretionary
 - **Contribution limit:** \$49,000/\$54,500
- ▣ **Defined Benefit Plans**
 - Promise to pay specified monthly income
 - Contributions mandatory
 - No contribution limit

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Current industry trends

- ✓ **Traditional defined benefit plans** ↓
 - 1985: 112,208 defined benefit plans
 - 2005: 29,000 defined benefit plans
- ✓ **Cash Balance Plans** ↑
 - 2000: 4%
 - 2005: 10%

Source: Employee Benefit Research Institute, 2005

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CASH BALANCE DESIGN V

RETIREMENT PLANS THAT SAVE TODAY AND BUILD TOMORROW

KRAVITZ National Cash Balance Research Report

[Why Cash Balance?](#)

Kravitz National Cash Balance Research Report

There were 1,755 new Cash Balance Plans created from 2002 through 2006 versus 571 for 1997 through 2001, representing a 307% increase from one five year period to the next.

Rank	State	Number of Plans	Percent of Nation's Total
1	California	462	13%
2	New York	405	11%
3	Ohio	293	8%
4	Illinois	253	7%
5	New Jersey	237	7%
6	Pennsylvania	196	5%
7	Texas	164	5%
8	Michigan	146	4%
9	Minnesota	138	4%
10	Florida	118	3%

[Why Cash Balance?](#)

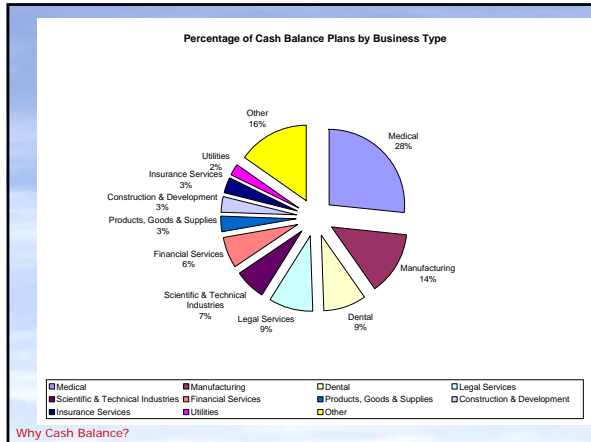
Kravitz National Cash Balance Research Report

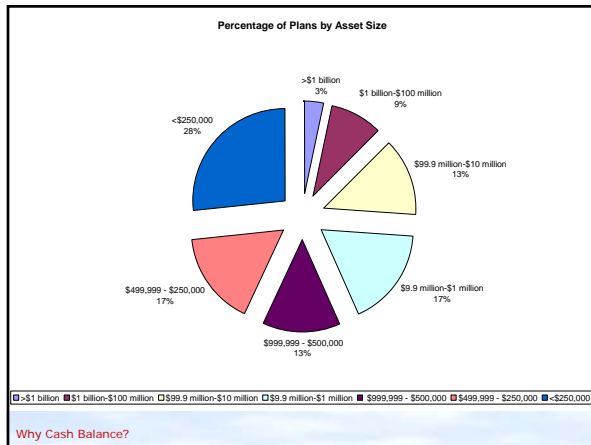
Active Participants	Number of Plans	Percent of Nation's Total
Over 10,000	228	6%
9,999 to 1,000	510	14%
999 to 100	444	12%
99 to 25	560	16%
24 to 10	771	21%
9 to 0	1075	30%

Number of Total EEs ¹	Percent of Nation's Total
Over 100,000	1%
99,999 to 10,000	5%
9,999 to 1,000	9%
999 to 100	6%
99 to 50	4%
49 to 10	13%
9 to 0	34%
Not Reported	29%

¹ Employees

[Why Cash Balance?](#)





Traditional Defined Benefit Plans

- Complex benefit formula
 - Years of service X Final Average Pay X 1%
 - e.g. $10 \times \$50,000 \times 1\% = \$5,000$
- Confusing
- Difficult to understand and appreciate

Account balances are not confusing

Why Cash Balance?

Cash Balance Plans- The best of both worlds

- Participants have individual accounts
- Contributions can exceed \$49,000
- Also called **Hybrid Plans**
 - DB Plan that looks like a DC Plan

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DB Versus CB Comparison

■ Defined Benefit Plans	■ Cash Balance Plans
▪ Complex formula	▪ Account balance
▪ Difficult to understand and appreciate	▪ Easy: looks like 401(k) Profit Sharing
▪ Negative press	▪ Flexible
▪ Difficult to combine with 401(k)	▪ Combines seamlessly with 401(k)

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Background on Cash Balance Plans

The diagram is a horizontal timeline with a light blue background. It features a central horizontal axis with four major tick marks labeled 1985, 1990, 2000, and 2006. Above the axis, there are three overlapping colored bars: a grey bar from 1985 to 1990 labeled 'Introduced by BankAmerica', a green bar from 1990 to 2000 labeled 'DB plans converting to Cash Balance', and a grey bar from 2000 to 2006 labeled 'Favorable Determination Letters: New Plans'. Below the axis, there are two red arrows pointing upwards: one at 1985 and one at 2006, with the text 'Pension Protection Act' centered between them.

1985 1990 2000 2006

Introduced by BankAmerica

DB plans converting to Cash Balance

Favorable Determination Letters: New Plans

Pension Protection Act

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Why clients adopt these plans



Taxes, taxes, taxes



Accelerate Savings



Asset protection

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2009 Contribution Limits

401(k), Profit Sharing & Cash Balance Plans				
Age	401(k)		TOTAL	Tax savings*
	Profit Sharing	Cash Balance		
60-65	\$54,500	\$236,390	\$290,890	\$116,356
55-59	\$54,500	\$171,280	\$225,780	\$90,312
50-54	\$54,500	\$124,201	\$178,701	\$71,480
45-49	\$49,000	\$90,136	\$139,136	\$55,654
40-44	\$49,000	\$63,299	\$112,299	\$44,920
35-39	\$49,000	\$45,667	\$94,667	\$37,867
30-34	\$49,000	\$32,988	\$81,988	\$32,795


* Assuming 40% state & federal tax. Taxes deferred only.

↑

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Why Cash Balance?

Retirement Plan Design



Why Cash Balance?

Joe Smiley is a business owner and he's having a good year!



He wants to contribute as much as possible to a retirement plan to reduce his taxes

Why Cash Balance?

Start with a 401(k) Profit Sharing Plan

- ✓ Joe can receive up to \$54,500 in a 401(k) profit sharing plan
- ✓ The contribution is tax deductible
- ✓ Investment earnings are tax deferred
- ✓ Joe will not pay taxes until he takes his money out of the plan many years from now

Why Cash Balance?

But

- ✓ Joe has employees
- ✓ He must cover some of them under the plan
- ✓ The plan cannot discriminate in Joe's favor

Or, more accurately:
There are limits on how much the plan can discriminate in Joe's favor.

Why Cash Balance?

A Common Approach

- ✓ Joe gets a contribution of \$54,500
 - 401(k): \$16,500 + \$5,500
 - Profit Sharing: \$32,500
- ✓ Everyone else gets 401(k) & 5% of Pay

Why Cash Balance?

It Looks Like This

	<u>Pay</u>	<u>K/PS</u>	<u>% of Pay</u>
Joe	\$245,000	\$54,500	22%
Staff	30,000	1,500	5%
Staff	30,000	1,500	5%
Staff	30,000	1,500	5%
Staff	30,000	<u>1,500</u>	5%
		\$6,000	

It costs Joe \$6,000 to save \$54,500

Why Cash Balance?

More?

- ✓ How can we make the plan more valuable for Joe?



Why Cash Balance?

Increase Joe's Contribution

Joe can have **both**

- 401(k) Profit sharing
- Cash Balance



Why Cash Balance?

It Looks Like This

	<u>Age</u>	<u>Pay</u>	<u>401(k)</u>	<u>Profit Sharing</u>	<u>Cash Balance</u>	<u>Total</u>
Joe	53	\$245,000	\$22,000	\$32,500	\$43,500	\$98,000
Staff	25	\$30,000		1,500	1,000	2,500
Staff	30	30,000		1,500	1,000	2,500
Staff	33	30,000		1,500	1,000	2,500
Staff	40	30,000		1,500	1,000	2,500
				\$38,500	\$47,500	\$108,000

91% of contribution goes to Joe

Why Cash Balance?



Employees realize a 100% increase in Company Contributions if Employer Sponsors a Cash Balance Plan

(Encino, CA) – Kravitz, the nation's leading expert in the design and administration of Cash Balance Pension Plans released today details of a report revealing that rank and file employees realize a 100% increase in company contributions if their employer adopts a Cash Balance Plan.

According to the Profit Sharing Council of America's 50th Annual Survey of Profit Sharing and 401(k) Plans, the average company contribution to employees in 401(k) plans is 3.0 percent of pay. For most participants who have a company match, the employees usually must contribute twice as much, or 6% to receive the company contribution.

According to Kravitz, in Cash Balance Plans, the average participants get 6% without having to make any contributions themselves. Typically, Cash Balance Plans require that employers contribute 5% to 8% of pay to the Non-Highly Compensated Employees in order to contribute larger amounts for the highly paid employees. "Cash Balance Plans are a win-win situation with increased contributions to the staff and higher limits for the executives," stated Kravitz President, Dan Kravitz.

Why Cash Balance?

Marketing Hint

- ✓ Find clients making profit sharing contributions
- ✓ Make the plan more valuable to the owners
- ✓ Makes plan easier to sell

Why Cash Balance?

CASE STUDY: Small Law Firm

Group I	Age	Compensation
Partner 1	52	\$ 230,000
Partner 2	49	230,000
Partner 3	48	230,000
Partner 4	42	230,000
Partner 5	40	230,000
Partner 6	39	230,000
Group II		
Associate		\$ 230,000
Group III		
16 Employees		\$ 750,000



Why Cash Balance?

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Marketing Hint

- ✓ Excludable HCEs
- ✓ Classes that can be excluded
 - Job class
 - Department
 - Geographic location

Why Cash Balance?

Law Firm

	Cash Balance	Profit Sharing	401(k)	Total
Partners				
Over 50 (15)	\$506,000	\$435,000	\$165,000	\$1,106,000
Under 50 (35)	35,000	1,015,000	350,000	1,400,000
	\$541,000	\$1,450,000	\$515,000	\$2,506,000
Associates (38)	0	0	N/A	0
Staff (98)	0	279,000	N/A	279,000
	\$541,000	\$1,729,000	\$515,000	\$2,785,000

Why Cash Balance?

Who is a good candidate?



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- Most Common Cash Balance Candidates**
- ✓ Medical groups, law firms, other professional firms
 - ✓ Highly profitable companies
 - ✓ Principals & Senior Executives earning > \$350,000
 - Alternative to non-qualified plans
 - ✓ Company willing to make employer contributions (5% to 8% of pay)
- Why Cash Balance?
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Common Concerns

- Less contribution flexibility than 401(k)
- Enough executives to participate? (%)
- Added cost: employer contribution & actuarial
- Less investment flexibility (pooled and 5%)

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Funding Concern

Contribution becomes obligation
(1,000 hours/June 15)

Partners concerned that they will be liable for another partners contribution.

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Key Features

Key feature #1

Assets are portable and creditor protected

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Key feature #2: Flexibility

Contribution amounts should not change more frequently than every 3 years.

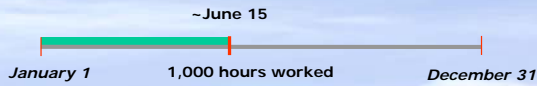
Underlying concern: what if cash flow changes?

1. Reduce 401(k)
2. Amend plan
3. Freeze plan

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Key feature #3: Reductions to Contribution

Plan changes: by amendment

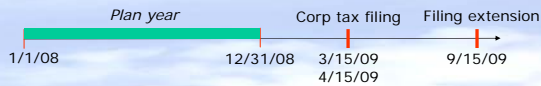


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Key Feature: # 4: Funding Deadline

- Tax filing date of corporate tax return
- Including extensions, but not later than September 15th



Why Cash Balance?

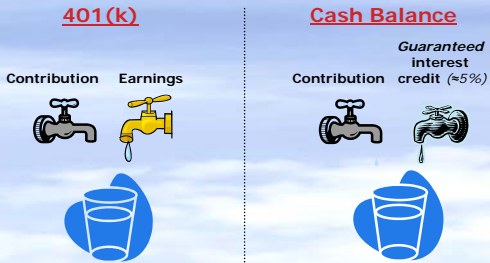
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Key Feature #5: Participant Accounts

- ✓ Participant have accounts
- ✓ Account increases
 - Employer contribution
 - Guaranteed interest credit
- ✓ Participants receive account on termination

Why Cash Balance?

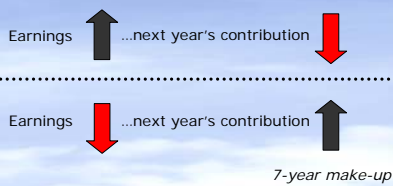
How Do Cash Balance Accounts Work?



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Plan Investments



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Principal-focused plans

The diagram illustrates the flow of information and decision-making for principal-focused plans. On the left, the 'Employee' is associated with the 'HR Office'. On the right, 'Principals' (including Partners, Owners, and HCEs) are associated with the 'Boardroom'. A large grey arrow points from the HR Office towards the Boardroom, indicating the direction of communication or plan implementation.

Employee

Principals
Partners
Owners
HCEs

HR Office

Boardroom

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Selling Strategy

We are here to help

- ✓ Determine the best possible plan design
- ✓ Maximize contribution for owners or key executives
- ✓ Control cost for staff

An illustration of a man in a suit and a woman in a business dress running together, holding hands, symbolizing teamwork and support in a business context.

Why Cash Balance?

Next Steps

Identify prospects

- Make a lot of money
- Professional service firms
- Already making profit sharing contributions

An illustration showing several people in business attire holding large, stylized dollar signs, representing financial success or profit sharing.

Why Cash Balance?

Next Steps

- ✓ Gather employee census data
- ✓ Prepare illustration
- ✓ Conference call or Meeting
 - Include CPA and TPA



Why Cash Balance?

Wealth of Information



www.CashBalanceDesign.com
