Goals

1. **Give you** a clear understanding of the Cash Balance market, present and future

2. **Show you** how to take advantage of Cash Balance growth

3. **Empower you** with tools and strategies to grow your business

Agenda

- 2016 Research Report: Highlights & Trends
- What’s Behind Record-Setting Growth?
- Size Matters: Big & Small Plan Markets
- Succeeding With Cash Balance Plans
- What’s New: Managing Volatility and More
“Best of Both Worlds”

Flexibility, Portability, Simplicity

Cash Balance

High Contribution Limits: $2.6 M
Lifetime Benefit

401(k) Profit Sharing

Hybrid

Traditional Defined Benefit

Growth Rate Surpasses Projections

Data analysis using:
- IRS Form 5500 filings, 2001-2014
- Department of Labor - EBSA data and reports
- Plan Sponsor Council of America (PSCA) Annual Survey data and reports

Notes

- 9th Annual Kravit National Cash Balance Research Report
- Growth Rate Surpasses Projections
Growth Rate Soars Past 401(k) Plans

Cash Balance: 401(k):

19%  2%

Report Highlights

- Cash Balance assets now surpass $1 Trillion
- The Cash Balance plan market increased 19% versus just 2% growth in new 401(k) plans
- Cash Balance plans now make up over 29% of all defined benefit plans, up from 2.9% in 2001
- Small and mid-size businesses continue to drive Cash Balance growth: 91% of plans are in place at firms with fewer than 100 employees
- New IRS regulations in 2010 and 2014 drove growth by allowing broader investment options

CB as % of all Defined Benefit Plans
Cash Balance: Regional Concentration

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Number of Plans</th>
<th>Percent of Nation's Total</th>
<th>Percent Annual Increase*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LA</td>
<td>1,191</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2</td>
<td>NC</td>
<td>1,101</td>
<td>7%</td>
<td>13%</td>
</tr>
<tr>
<td>3</td>
<td>OH</td>
<td>1,010</td>
<td>7%</td>
<td>17%</td>
</tr>
<tr>
<td>4</td>
<td>IL</td>
<td>1,010</td>
<td>7%</td>
<td>12%</td>
</tr>
<tr>
<td>5</td>
<td>NJ</td>
<td>837</td>
<td>6%</td>
<td>13%</td>
</tr>
<tr>
<td>6</td>
<td>FL</td>
<td>724</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>7</td>
<td>WI</td>
<td>724</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>8</td>
<td>PA</td>
<td>634</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>9</td>
<td>MI</td>
<td>570</td>
<td>4%</td>
<td>11%</td>
</tr>
</tbody>
</table>

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.

Why Is CB More Popular in Certain States?

- Medical "hubs"
- Higher Taxes
- Population & Age
- CB Champions

Top 7 States that Tax You the Hardest

1. California: 13.3%
2. Oregon: 9.9%
3. Minnesota: 8.93%
4. Iowa: 8.93%
5. Vermont: 8.06%
6. New York: 8.06%
7. New Jersey: 8.06%
What’s Driving Cash Balance Growth?

Key to CB Growth: Tax Environment

Understanding Tax Deductions

Above The Line Deductions
Most desirable type of deduction - Reduces AGI

- Qualified Retirement Plan Contributions

Below the Line Deductions
Many limitations - Subject to phaseouts.*

- Charitable Contributions
- State Tax
- Property Taxes
- Mortgage Interest

*Subject to phaseouts based on income >$250,000 (single) or >$300,000 (married filing jointly)
Summary of CB Tax Advantages

Advisor Handout

Client Handout

Notes

Retirement Savings Crisis

THE WALL STREET JOURNAL   YOUR MONEY

Retiring Boomers Find 401(k) Plans Fall Short

By J. P. Riehl

The 401(k) generation is beginning to retire, and it isn’t pretty right.

The retirement savings plans that many baby boomers thought would see them through old age are falling short in many cases.

The median household headed by a person aged 60 to 62 with a 401(k) account has less than one-quarter of what is needed in that account to maintain its current level of living in retirement, according to data compiled by the Federal Reserve and analyzed by the Center for Retirement Research at Boston College for The Wall Street Journal. Even counting Social Security and any

Fastest Way to “Catch Up”

2016 Contribution Limits

401(k) Profit Sharing & Cash Balance Plans

<table>
<thead>
<tr>
<th>Age</th>
<th>Profit Sharing</th>
<th>Cash Balance</th>
<th>TOTAL</th>
<th>Tax savings*</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 - 65</td>
<td>$93,000</td>
<td>$249,000</td>
<td>$342,000</td>
<td>$126,000</td>
</tr>
<tr>
<td>55 - 59</td>
<td>$93,000</td>
<td>$201,000</td>
<td>$294,000</td>
<td>$117,600</td>
</tr>
<tr>
<td>50 - 54</td>
<td>$93,000</td>
<td>$153,000</td>
<td>$246,000</td>
<td>$96,400</td>
</tr>
<tr>
<td>45 - 49</td>
<td>$53,000</td>
<td>$117,000</td>
<td>$170,000</td>
<td>$70,500</td>
</tr>
<tr>
<td>40 - 44</td>
<td>$53,000</td>
<td>$68,000</td>
<td>$121,000</td>
<td>$48,400</td>
</tr>
<tr>
<td>35 - 39</td>
<td>$53,000</td>
<td>$68,000</td>
<td>$121,000</td>
<td>$48,400</td>
</tr>
<tr>
<td>30 - 34</td>
<td>$53,000</td>
<td>$52,000</td>
<td>$105,000</td>
<td>$47,250</td>
</tr>
</tbody>
</table>

*Assuming 45% tax bracket; taxes are deferred

Cash Balance lifetime limit: $2,600,000

Notes
Notes

A Perfect Storm

Rising Taxes  Retirement Savings Crisis

Both Sides of the Story

CB growth: driven by small business but also a popular choice for certain large firms and some Fortune 500 companies.
91% Have <100 Employees

<table>
<thead>
<tr>
<th>Participants</th>
<th>Number of Plans</th>
<th>Percent of Nation's Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 10,000</td>
<td>253</td>
<td>1.7%</td>
</tr>
<tr>
<td>1,000 to 10,000</td>
<td>575</td>
<td>3.8%</td>
</tr>
<tr>
<td>100 to 999</td>
<td>573</td>
<td>3.8%</td>
</tr>
<tr>
<td>25 to 99</td>
<td>1,593</td>
<td>10.5%</td>
</tr>
<tr>
<td>10 to 24</td>
<td>3,499</td>
<td>23.0%</td>
</tr>
<tr>
<td>1 to 9</td>
<td>8,665</td>
<td>57.2%</td>
</tr>
<tr>
<td>National Total</td>
<td>15,178</td>
<td></td>
</tr>
</tbody>
</table>

Total participants in Cash Balance plans nationwide: 12.3 million

Why So Appealing to Small Business?

1. **Cost efficiency and tax efficiency:** ratio of owner/employee contributions works very well for small to mid-size firms
2. **Age-weighted contribution limits:** *ideal for older owners* who have sunk most assets into the business and are behind on retirement
3. **Asset protection** (for lawsuit or bankruptcy)
4. Attracting and retaining key employees (CB plans have greater appeal)
5. **Succession planning** for family businesses

Large Plans: Top 10 by Asset Size
Taking Advantage of CB Growth

You have the basic knowledge... 
Now what?

6 Tips to Get Started

Tip #1: Focus on the Right Targets

NOT a mass market product like a 401(k): 
Cash Balance is a "niche" product

Who is Ideal?

Business owners with income >$250,000 and consistent profit patterns
Wealthy boomers who need to squeeze 20 years of retirement savings into 10 years.

Who is Ideal?

Businesses with a New Comparability plan

Who is Ideal?

Professional services firms, including medical groups, CPAs, law firms and financial services
Who is Ideal?

Successful family businesses and closely held businesses

Growth in Diverse Business Sectors

Diverse Business Sectors
Tip #2: Understand Plan Combinations

<table>
<thead>
<tr>
<th>Group</th>
<th>Owners</th>
<th>Employee 1</th>
<th>Employee 2</th>
<th>Employee 3</th>
<th>Employee 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner 1</td>
<td>60</td>
<td>$265,000</td>
<td>$18,000</td>
<td>$24,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Owner 2</td>
<td>50</td>
<td>$265,000</td>
<td>$18,000</td>
<td>$24,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Owner 3</td>
<td>40</td>
<td>$265,000</td>
<td>$18,000</td>
<td>$24,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Owner 4</td>
<td>35</td>
<td>$265,000</td>
<td>$18,000</td>
<td>$24,000</td>
<td>$35,000</td>
</tr>
</tbody>
</table>

Group 2: Staff $120,000

<table>
<thead>
<tr>
<th>Group</th>
<th>Staff</th>
<th>Employee 1</th>
<th>Employee 2</th>
<th>Employee 3</th>
<th>Employee 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff 1</td>
<td>55</td>
<td>$105,000</td>
<td>$7,500</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Staff 2</td>
<td>45</td>
<td>$125,000</td>
<td>$7,500</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

Group 3: Staff $5% of pay

<table>
<thead>
<tr>
<th>Group</th>
<th>Staff</th>
<th>Employee 1</th>
<th>Employee 2</th>
<th>Employee 3</th>
<th>Employee 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff 1</td>
<td>70</td>
<td>$80,000</td>
<td>$4,000</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Staff 2</td>
<td>31</td>
<td>$20,000</td>
<td>$1,000</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

Subtotals $1,184,000 $0 $44,000 $10,000 $60,000

Grand Totals $2,288,000 $45,000 $164,000 $210,000 $484,000

Percent of Contribution to Owners: 88%

Tip #3: Reach Out to CPAs

Many CPAs are unaware of Cash Balance Plans and are thrilled to find a major new deduction/deferral option for clients.
Tip #4: Sell the ‘Safe Money’ Story

Market volatility increases the appeal of Cash Balance Plans

Tip #5: Learn About CB Investing

Opportunity for advisors to help companies with problematic strategies

Type of Investments | Percentage
--- | ---
Equities or Equity Funds | 45%
Bonds or Bond Funds | 45%
Cash or Equivalents | 5%
Balanced Funds | 3%
Alternative Investments | 1%

Article on CB Investment Challenges

New article on Cash Balance investment strategies for today’s market, available on CashBalanceDesign.com
Tip #6: Partner with a CB Specialist

- Cash Balance Plans are highly technical and sophisticated
- Lack of experience can lead to failed IRS testing, lower benefits, missed opportunities
- Complex sale, long sales cycle – need a skilled partner

10 Questions to Ask Your Actuary

- How many hours have you been doing Cash Balance Plans?
- How can you determine if your Cash Balance Plan design and funding rate are compliant with the IRS? (Do you have a plan consultant that can answer these questions?)
- How many Cash Balance Plans do you currently administer?
- Can you reasonably estimate my future expenses in 14 years?
- What is the use of the regular plan performance?
- Can you determine the actuarial present value of your plan?
- How many of your clients have Cash Balance Plans?
- What is the overall performance of your Cash Balance Plans?
- How many of your clients have Cash Balance Plans?
- What strategies do you have for managing the Cash Balance Plan?

What’s Ahead?

5 key factors impacting the Cash Balance market in 2016:
- Market still absorbing the impact of 2014 CB regulations
- Growing awareness of the new ICR options and broader investment choices
- Challenging low interest rate environment = need for better strategies
- Election year = no chance of tax reform impacting qualified plans
- Market volatility is driving an increase Cash Balance popularity
Game Changer: 2010 CB Regulations

Good news for Cash Balance Plan sponsors:
- Greater flexibility and simplicity
- Many more ICR options, including Actual Rate of Return
- Many funding issues minimized
- Increased awareness

2014 Final CB Regulations

- September 2014 - IRS finalizes Cash Balance regulations
- Allows for broader options for choosing Interest Crediting Rate (ICR)
- Key change: allows multiple investment options within a single CB plan

Impact: Shift in ICR Choices

<table>
<thead>
<tr>
<th>Interest Crediting Rate</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate of Return (2%)</td>
<td>56.2%</td>
</tr>
<tr>
<td>30-year Treasury Rate</td>
<td>16.7%</td>
</tr>
<tr>
<td>30-year Treasury Rate with a floor (2% to 4%)</td>
<td>20.4%</td>
</tr>
<tr>
<td>Actual Rate of Return</td>
<td>1.3%</td>
</tr>
<tr>
<td>Actual Rate of Return with ceiling (ranging from 2% to 4%)</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

*Note: chart includes all 550 clients, but 30% of Kravitz large plans (>100 employees) are now using Actual Rate of Return.
Interest Crediting Rate Flexibility

- Safe Harbor Rates such as 30 Year Treasury Rate
- Investment Based Rates: A diversified mutual fund
- Fixed Rate up to 6%
- Actual Return of Plan Assets: Portfolio must be diversified

How Actual Rate of Return Works

ICR = Actual rate of return on plan assets
Requirement: assets must be "diversified so as to minimize the volatility of returns."

Acceptable: a mix of bonds and equities
Unacceptable: assets exclusively in a sector fund

Understanding Actual Rate of Return

Advantage
Minimizes most of the underfunding and overfunding issues

Disadvantages
Impact of volatile returns needs to be managed
Preservation of Capital Rule
### Actual Rate of Return With a Twist

**Biggest change in the September 2014 Cash Balance Regulations:**
IRS now allows for **different investment strategies** for various groups of participants within one Cash Balance plan.

### Actual Rate of Return With Investment Options

<table>
<thead>
<tr>
<th></th>
<th>Fixed Income</th>
<th>Equities</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Three Rules:
1. Diversification
2. Employer securities cannot be > 10%
3. **Employer choice, not participant choice**

*Note: participant direction in Cash Balance plans is still 'under review' by the IRS.*
Case Study

Law Firm

Cash Flow

Investment

50 Partners

0 Participation

200 Employees

Helpful Guide: Understanding ICRs

More Options
More Choice
More Freedom

What is an ICR?

It is a fee plan that allows attorneys to receive payments
in the form of a salary, bonuses, and profit sharing. It
is not a retirement plan but rather a compensation
model that allows for greater control and flexibility.

Selecting Your ICR

Understanding New ICR Options

New Era, New Options

Traditionally, law firms have provided their attorneys with a
salary and bonus structure. However, with the changing
times, new compensation models have emerged. One of
these is the Implementation of a New Compensation
Regime (ICR).

Key Features

- Increased control over your compensation
- Flexibility in determining the amount
- Potential for higher earnings

Multiple Retirement Options Within a Single Plan

With an ICR, you have the freedom to choose which
method of retirement best suits your needs.

- Annuity
- Lump Sum
- Partial Withdrawal

Cost-Benefit Analysis

- Evaluate the trade-offs between different options
- Consider your financial goals and risk tolerance
New investment strategies for Cash Balance plans: 3 collectives targeting different points on the risk spectrum.

- 15% Ultra-conservative
- 25% Conservative
- 35% Moderate

Cash Balance 2016 Predictions

1. Prediction: 20%+ CB growth driven by tax climate, economy, awareness
2. Actual Rate of Return (ARR) replaces fixed rates as most popular option in large plan market
3. More large firms opt for 'investment choice' Cash Balance plans
4. CB becomes a "must-have" for top medical/legal groups
5. High demand for CB investment expertise as plans with too-high ICRs struggle in low-interest environment

Daily Valuation & Participant Technology

- Taking Cash Balance out of the "black box"
- Participant-friendly technology
- 24/7 mobile access
Payden Kravitz Cash Balance Fund

Assets now close to $200M

How Can We Help?

Get a free plan design, connect with our Cash Balance community on social media:

(877) CB-Plans
www.CashBalanceDesign.com

@KravitzInc  LinkedIn
Cash Balance Consultants