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Cash Balance Outlook 2016



August 2, 2016
Dan Kravitz, President
Kravitz Inc.
 Martha Ophir,
 Marketing Manager



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

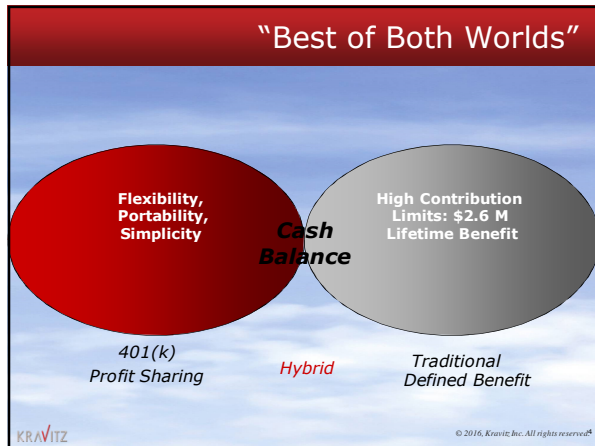



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Agenda

-  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


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KRAVITZ CASH BALANCE DESIGN

2016 National **CASH BALANCE RESEARCH REPORT**
cashbalancedesign.com | (877) CB-Plans

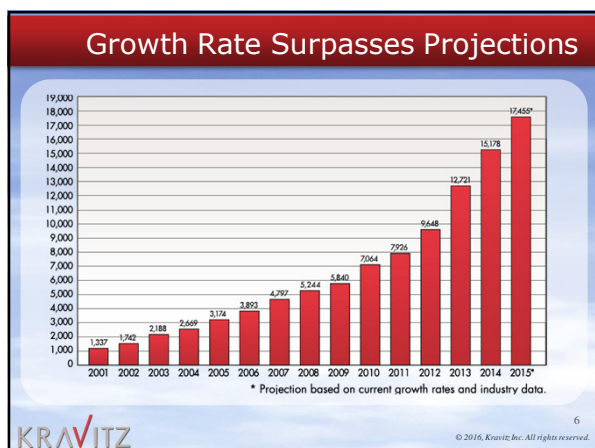
9th Annual Kravitz National Cash Balance Research Report

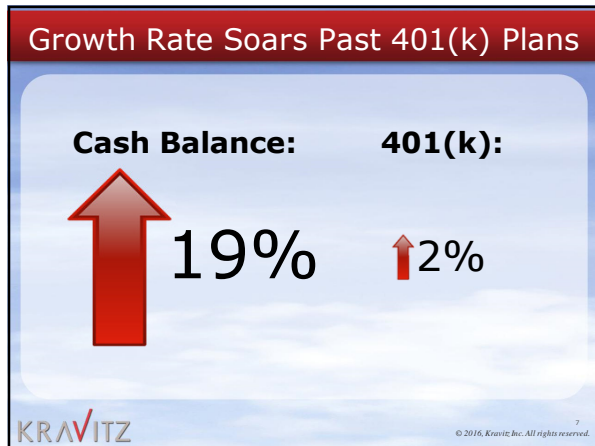
Data analysis using:

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

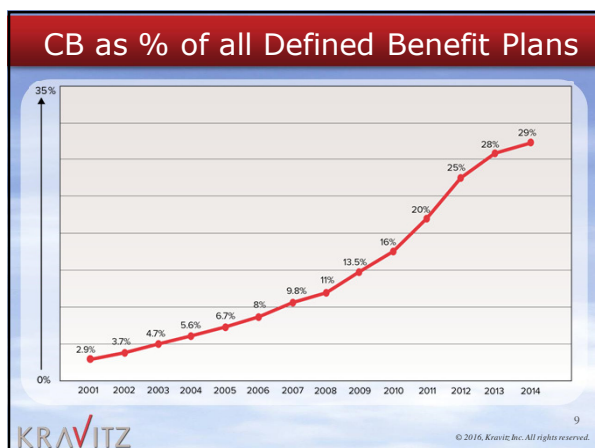
KRAVITZ The Cash Balance Authority
Bill Kravitz | Rick Nadeau | Christine Pines | Dan Wright | Patrick J. Pines | Thomas J. Pines | Dan Wright | Christine Pines | Dan Wright | Patrick J. Pines | Thomas J. Pines

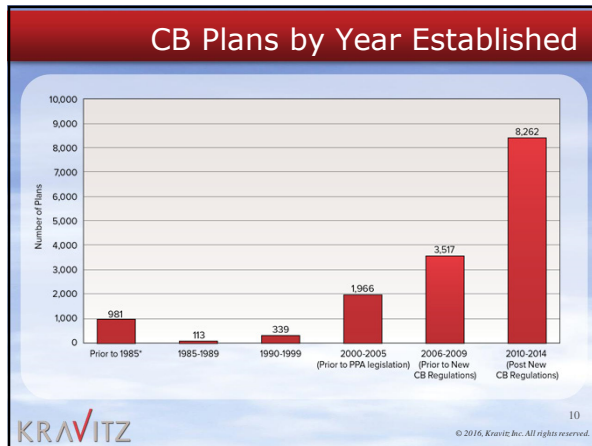
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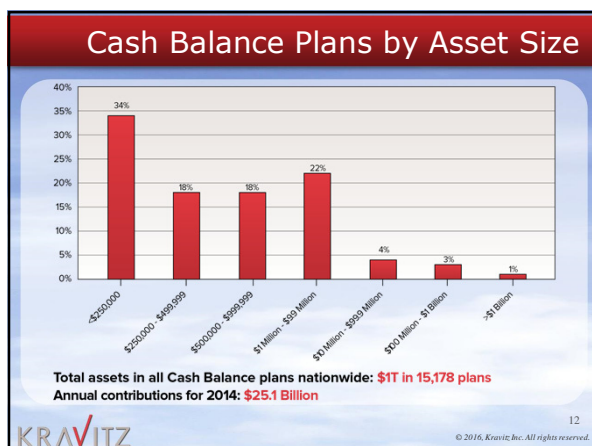


Company Contribution to Employee Retirement Accounts

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.

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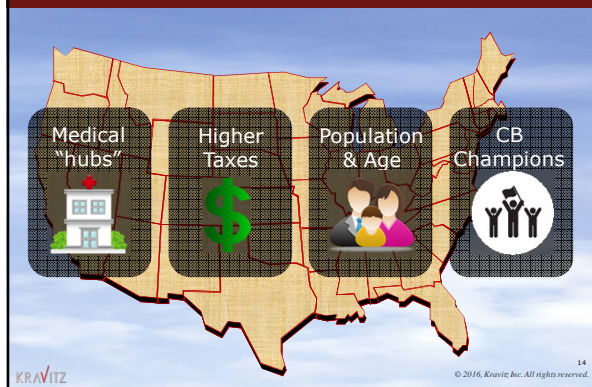


Cash Balance: Regional Concentration

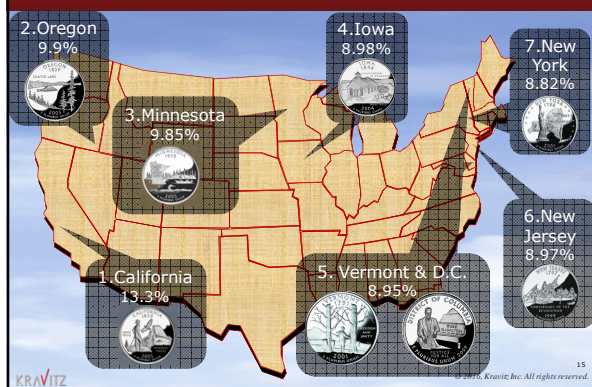
Rank	State	Number of Plans	Percent of Nation's Total	Percent Annual Increase*
1.	CA	1,974	13%	24%
2.	NY	1,566	10%	19%
3.	OH	1,011	7%	18%
4.	IL	1,010	7%	17%
5.	TX	932	6%	23%
6.	NJ	837	6%	14%
7.	FL	835	6%	23%
8.	PA	634	4%	11%
9.	MI	570	4%	17%
10.	MN	362	2%	17%
National Total		15,178		

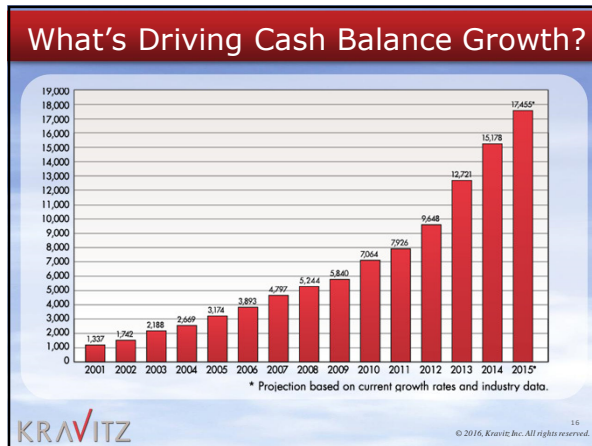
*Increase in total number of plans between 2013-2014, the most recent year for which complete IRS Form 5500 data is available.

Why Is CB More Popular in Certain States?



Top 7 States that Tax You the Hardest





Key to CB Growth: Tax Environment

2012 Rates	2016 Rates
Investment tax* = 0%	Investment tax* = 3.8%
Highest income tax = 35%	Highest income tax = 39.6%
Medicare tax** = 2.9%	Surtax of .90% = 3.8%
Capital gains/Dividend tax = 15%	Capital gains/Dividend tax = 23.8%

* Investment Income tax on all unearned income (interest, dividends, gains, rents & royalties, etc.)

** Medicare tax for individuals is 1.45%. Most company structures require an Employer matching amount of 1.45%. Most of these taxes applied on high wage earners earning >\$250k AGI, filing jointly.

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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)

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Summary of CB Tax Advantages

Advisor Handout

Tax Advantages of Cash Balance Retirement Plans

REDUCING THE PAIN OF RECENT TAX HIKES

The deductions are increasingly hard to come by, especially when the "tax" deduction that directly reduces income is more than \$100,000. With many federal, state and local tax increases in place for 2013, Cash Balance Plans make a huge impact on savings for the future.

Fast Fact 2013 Tax Changes:

Cash Balance contributions are fully deductible, even if they exceed the \$100,000 limit. This is a significant advantage over other retirement plans that have been subject to the \$100,000 limit since 2001.

Example of Tax Savings:

Bob, age 55, contributes \$100,000 to his Cash Balance Plan. He receives a \$100,000 deduction on his 2013 tax return. This reduces his taxable income by \$100,000, which saves him \$10,000 in taxes (assuming a 10% tax rate).

Client Handout

How to Reduce the Pain of Recent Tax Hikes

ADVANTAGES OF CASH BALANCE RETIREMENT PLANS

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Retirement Savings Crisis

THE WALL STREET JOURNAL

Retiring Boomers Find 401(k) Plans Fall Short

By E. S. BROWNING

The 401(k) generation is beginning to retire, and it isn't a pretty sight.

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 standard 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

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Fastest Way to "Catch Up"

2016 Contribution Limits				
401(k) Profit Sharing & Cash Balance Plans				
Age	401(k) with Profit Sharing	Cash Balance	TOTAL	Tax savings*
60 - 65	\$59,000	\$249,000	\$308,000	\$138,600
55 - 59	\$59,000	\$201,000	\$260,000	\$117,000
50 - 54	\$59,000	\$153,000	\$212,000	\$95,400
45 - 49	\$53,000	\$117,000	\$170,000	\$76,500
40 - 44	\$53,000	\$90,000	\$143,000	\$64,350
35 - 39	\$53,000	\$68,000	\$121,000	\$54,450
30 - 34	\$53,000	\$52,000	\$105,000	\$47,250

*Assuming 45% tax bracket, taxes are deferred

Cash Balance lifetime limit: \$2,600,000

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Notes

The Rise of Cash Balance Plans

A Perfect Storm

Rising Taxes


Retirement Savings Crisis

Legislative Changes (2006, 2010, 2014)

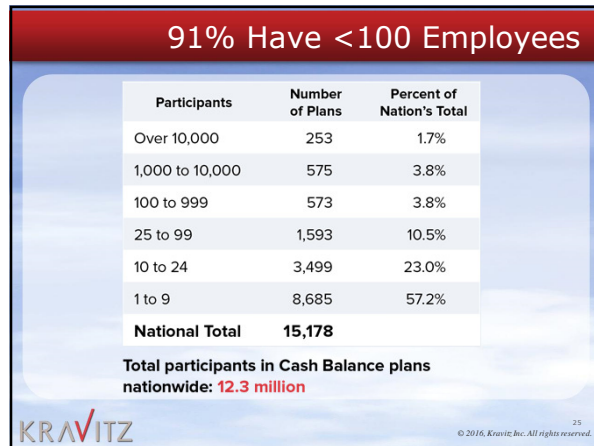
Public Awareness, Media Coverage

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.



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Taking Advantage of CB Growth

You have the basic knowledge...

Now what?

6 Tips to Get Started



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Tip #1: Focus on the Right Targets


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



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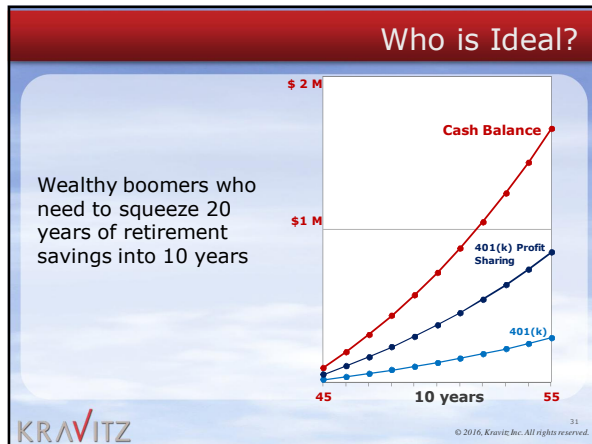
Who is Ideal?

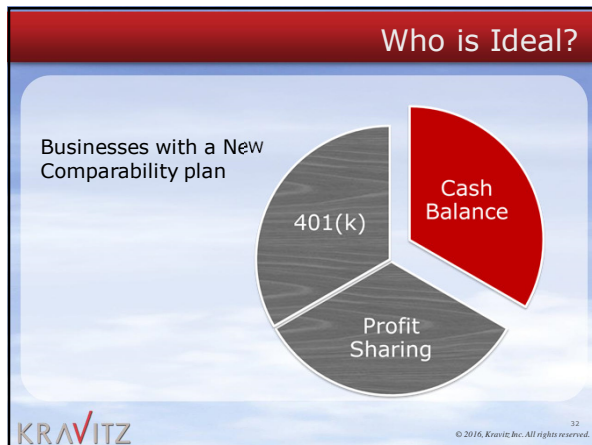


Business owners with
income >\$250,000 and
consistent profit
patterns

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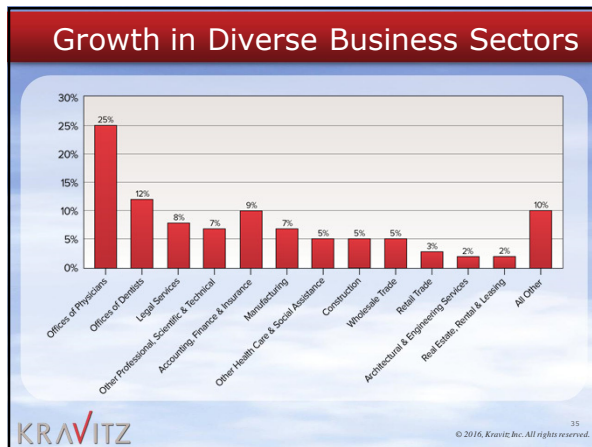
Who is Ideal?



Successful family businesses and closely held businesses

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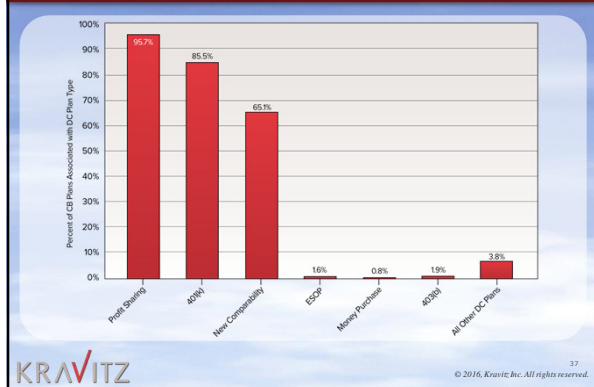
Diverse Business Sectors



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Tip #2: Understand Plan Combinations



Success with Plan Combinations

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contribution
Group 1: Owners						
Owner 1	60	\$ 265,000	\$ 24,000	\$ 35,000	\$0 to \$ 50,000	\$ 109,000
Owner 2	50	\$ 265,000	\$ 24,000	\$ 35,000	\$0 to \$ 50,000	\$ 109,000
Owner 3	40	\$ 265,000	\$ 18,000	\$ 35,000	\$0 to \$ 50,000	\$ 103,000
Owner 4	35	\$ 265,000	\$ 18,000	\$ 35,000	\$0 to \$ 50,000	\$ 103,000
Group 2: Staff - \$120,000						
Employee 1	50	\$ 65,000		3% of pay	\$ 0	\$ 4,950
Employee 2	45	\$ 125,000		3.75%	\$ 0	\$ 3,750
Group 3: Staff						
Employee 3	65	\$ 80,000		5.0%	\$ 1,000	\$ 5,000
Employee 20	21	\$ 20,000		5.0%	\$ 1,000	\$ 2,000
Subtotals		\$ 1,140,000	\$ 0	\$ 42,500	\$ 18,000	\$ 60,500
Grand Totals		\$ 2,200,000	\$ 84,000	\$ 182,500	\$ 218,000	\$ 484,500
Percent of Contribution to Owners:						88%

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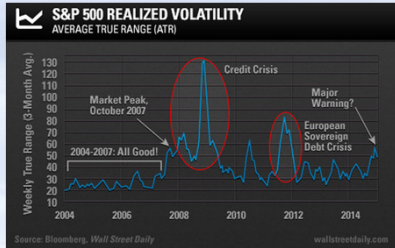
Tip #3: Reach Out to CPAs

✓ Many CPAs are **unaware** of Cash Balance Plans and are thrilled to find a major new deduction/deferral option for clients.

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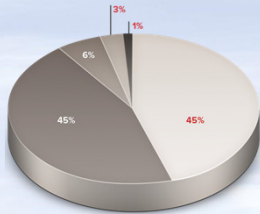
Tip #4: Sell the 'Safe Money' Story

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	6%
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

Cash Balance Plan Investing in 2015 and Beyond By Steve Semone

Times have changed dramatically in the Cash Balance plan investment world and those who aren't keeping up are losing the game. These two forced plans began rising in popularity back in 2007, after the 2006 Pension Protection Act (PPA) clarified their legality. Plan assets were typically invested with the 30-year Treasury rate as a similar safe harbor rate as a target. At the time, this choice appealed to everyone and was easy to achieve: the 30-year Treasury bill yielded higher than 5% and the 30-year Treasury bond yielded nearly 6.5%.

Fast forward to 2015. Treasury yields have plummeted, interest rates hover near zero, and global market volatility is the norm. Many Cash Balance plan advisors seeking net returns in the 5% to 6% range are taking on high levels of equity risk without understanding the consequences to plan sponsors.

Our goal in this article is to help advisors and plan sponsors understand the unique strategy required for successful Cash Balance plan investing, and how to adjust these strategies to a volatile low interest market environment.

Take a Step Back: Understanding How Cash Balance Plans are Different

The most important thing to remember about Cash Balance plan investing is that assets must be "marked to market" the value is liquidated on that day at the end of the plan year. The plan's funding level must be certified by an actuary, and there are consequences for both over-performing and under-performing the targeted investment crediting rate (ICR). Underfunded plans can incur penalties, benefit restrictions and higher PBGC premium rates, along with other challenges. Overfunded plans can

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

The success of a Cash Balance Plan depends on creative plan design along with effective, accurate and timely plan administration. These 10 questions will help you do your due diligence before partnering with a pension actuary.

1. How long have you been doing Cash Balance Plans?

Working with an actuary who is new to the complexities of Cash Balance is like choosing an actuary who just finished running a car. Most actuaries have only worked on traditional defined benefit plans and do not fully understand the nuances of Cash Balance.

2. How many Cash Balance Plans do you currently administer?

If the company doesn't handle many plans, they may not have the experience to design and manage your client's plan successfully.

3. What is the size of the typical plan you handle?

A small firm's Cash Balance Plan is far simpler to manage than one with multiple parties or shareholders.

4. What are your service standards for plan illustrations and actuarial reports?

Cash Balance Plan rules and their execution can be extremely complex. An actuary's ability to meet deadlines and quickly deliver proposals and clear reports.

5. How many actuaries do you have on staff?

Many TPA firms outsource Cash Balance Plans since they don't have an in-house actuarial team. For accountability and direct access to expertise, it's preferable to work with a specialist firm whose staff actuaries are highly experienced with Cash Balance Plans.

6. What do your fees cover?

Ask for a detailed breakdown, and be wary of hidden fees. Ask if the breakdown includes the plan documents. Be wary of very low fees and underbidding. Cheap estimates often become shockingly expensive when they run into compliance and funding problems and need to be reworked or when they may be a more experienced actuary.

7. Do you offer online participant access with on-demand statements?

Most actuarial firms can only provide annual paper statements which are typically available many months after the end of the year.

8. Do you administer plans using an "Actual Rate of Return" interest crediting rate? Do you allow multiple investment options within a plan?

Most actuarial firms cannot service plans using an actual rate of return (ARR). Of the firms that do, few have the actuarial expertise to offer multiple investment options within the plan.

9. What industries do you serve?

Plan design issues and challenges vary greatly by industry. Ask for a firm with Cash Balance experience specific to your field. For example, law firm plans usually have multiple tiers of participants and require knowledge of managing professional fees.

10. Who can I call as a reference for your work on Cash Balance Plans?

A good actuary will happily provide client references you can call. Specifically Cash Balance clients in your industry.

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

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2014 Final CB Regulations

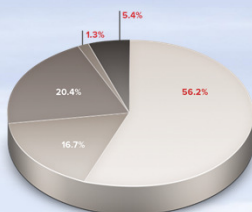


- ✓ **September 2014** - IRS finalizes Cash Balance regulations
- ✓ Allows for **broad**er options for choosing Interest Crediting Rate (ICR)
- ✓ Key change: allows multiple investment options within a single CB plan

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Impact: Shift in ICR Choices







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%


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

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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



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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




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Understanding Actual Rate of Return

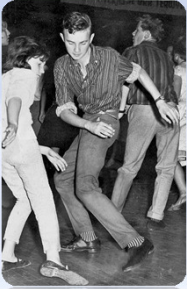
Advantage
Minimizes most of the underfunding and overfunding issues

Disadvantages
Impact of volatile returns needs to be managed
Preservation of Capital Rule



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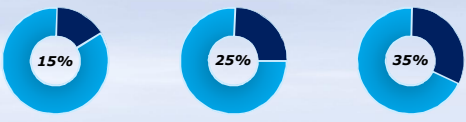
Actual Rate of Return With a Twist



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.*

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Actual Rate of Return With Investment Options



15% 25% 35%

Fixed Income
Equities

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Actual Rate of Return With Investment Options

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.

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Case Study

Law Firm


50 Partners

200 Employees

Cash Balance

On-Participating

Investment




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Helpful Guide: Understanding ICRs

KRAVITZ CASH BALANCE RETIREMENT PLANS BY KRAVITZ

**More Options
More Choice
More Freedom**



CASH BALANCE PLANS: Better than ever.

What is an ICR?
Every Cash Balance Plan has an Interest Crediting Rate (ICR) written into the plan document. Participant accounts grow annually on how much the employer contributes and an interest credit.

The ICR can be one of the safe harbor options listed at right, or it can be the "Actual Rate of Return" on the plan assets.

Selecting Your ICR

1. Choose a plan document.
2. Select a plan document and a safe harbor option.
3. If a plan document is selected, it will be the ICR.
4. If a plan document is selected, it will be the ICR.

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Understanding New ICR Options

New Era, New Options

Safe Harbor Options

Actual Rate of Return Option

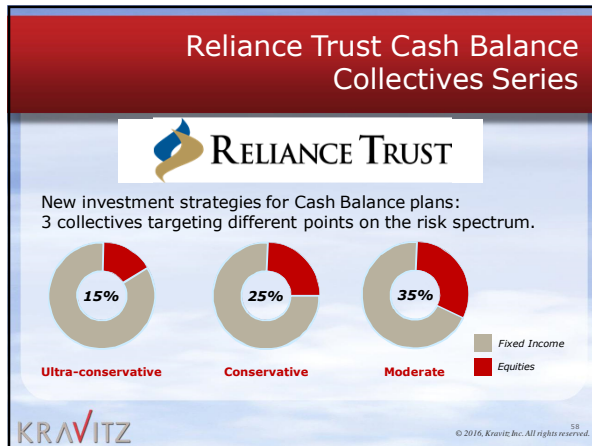
Multiple Investment Options Within a Single Plan

Key Advantages of an Investment Choice Cash Balance Plan:


- More diverse participant needs and goals
- A wide range of investment strategies within a single plan
- Reduced volatility by spreading investments across various asset classes
- Improved ability to attract and retain top talent

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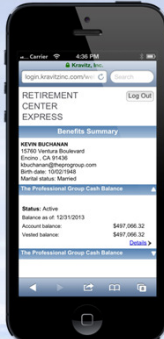
Cash Balance 2016 Predictions



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

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Daily Valuation & Participant Technology



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

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Cash Balance and Retirement Plan Design (877) CB-PLANS (877) 226-0123

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Payden Kravitz Cash Balance Fund

PAYDEN/KRAVITZ

THE CASH BALANCE INVESTMENT SOLUTION

- Highly Diversified
- Professionally Managed
- Targets Consistent Returns
- Complies with Internal Financial Objectives

Successful investment management of a cash balance plan requires an understanding of the complex relationship between risk and return.

20-Year Treasury
Secured Return
Cash Balance Plan

A retirement plan can be tailored for the unique goals and objectives of any business.

Assets now close to \$200M

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How Can We Help?

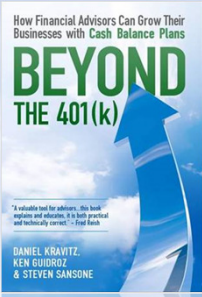
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www.CashBalanceDesign.com

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Beyond the 401(k)



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YouTube Channel

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Cash Balance Coach™ Certification



CashBalanceCoach.com

Fall session dates: Oct 6, 7, 13 & 15

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