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Cash Balance Outlook 2017

Key Trends & Market Insights

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Dan Kravitz, President

Martha Ophir, Marketing Manager

September 12, 2017

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

1. 2017 Research Report Highlights
2. What's Driving the Steep Growth Curve?
3. How to Take Advantage of CB Growth
4. Market Trends & Predictions
5. How We Can Help You Succeed: Next Steps

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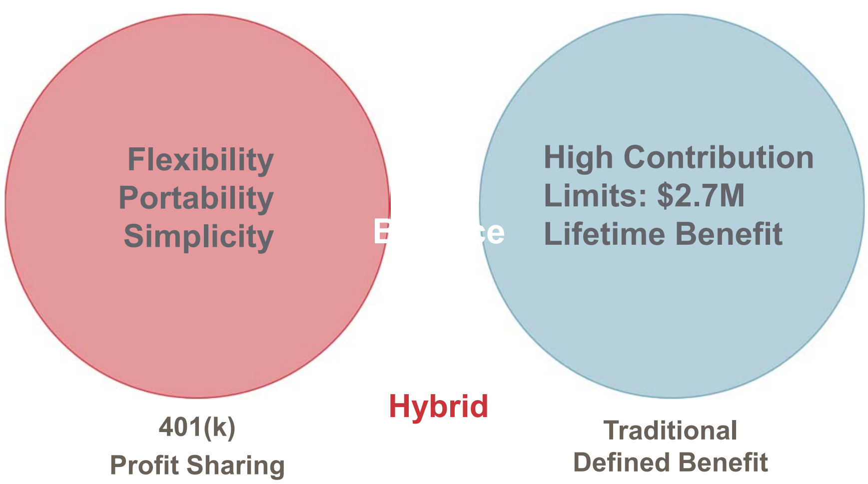
"Best of Both Worlds"



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1 2017 Research Report Highlights

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10th Annual Kravitz National Cash Balance Research Report

Data analysis using:

- IRS Form 5500 filings, 2001-2015
- Department of Labor - EBSA data and reports
- Plan Sponsor Council of America (PSCA) Annual Survey data and reports

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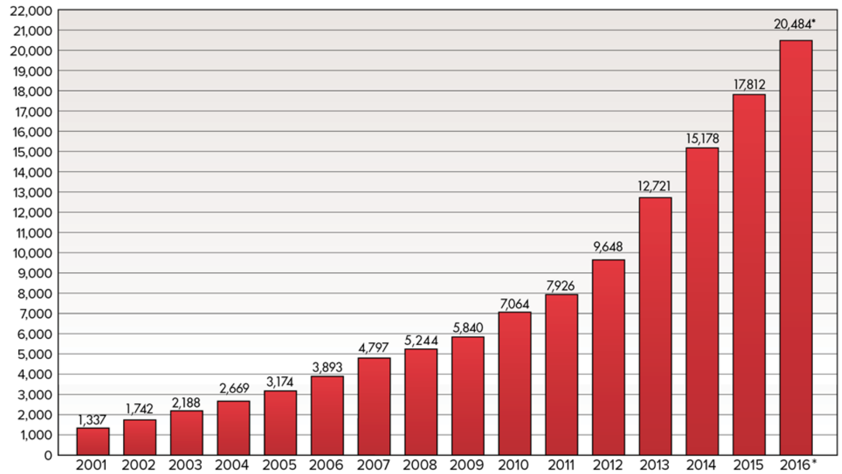
Continuing Trend: Double-Digit Growth



* Projection based on current growth rates and industry data.

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Growth Comparison vs 401(k) Plans

Cash Balance: 17%

401(k): 3%

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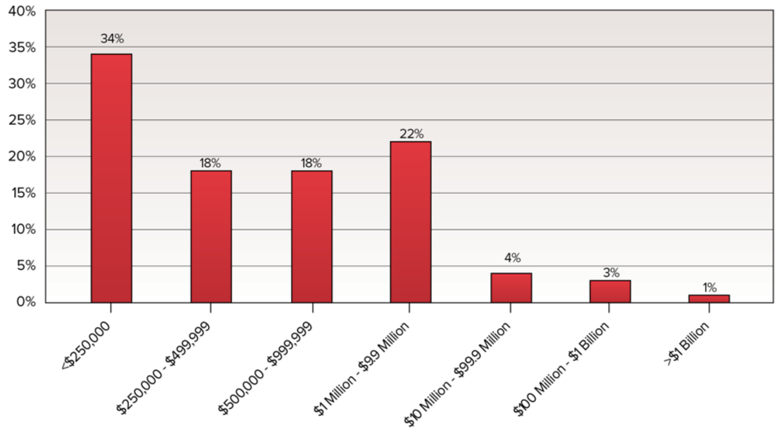
Cash Balance Assets Surpass $1.1T



Total assets in all Cash Balance plans nationwide: $1.1T in 17,812 plans
Annual contributions for 2015: $29.3 Billion

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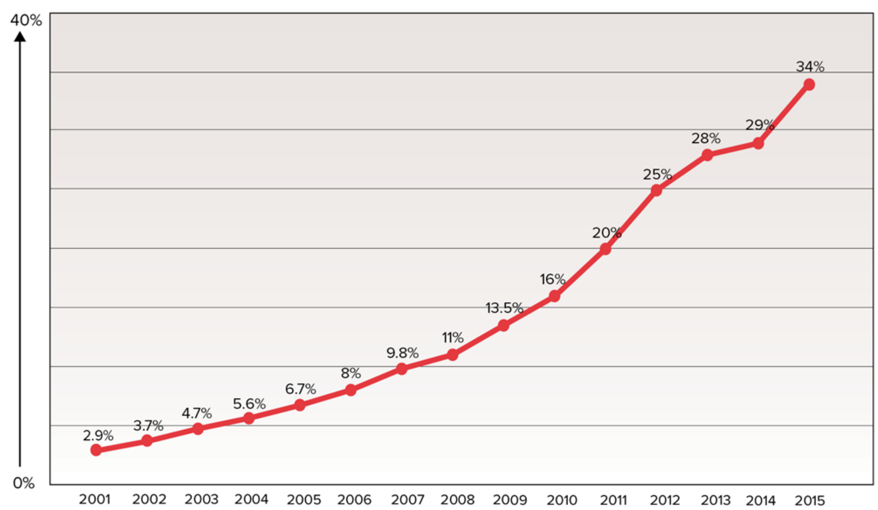
CB Makes Up 34% of all DB Plans



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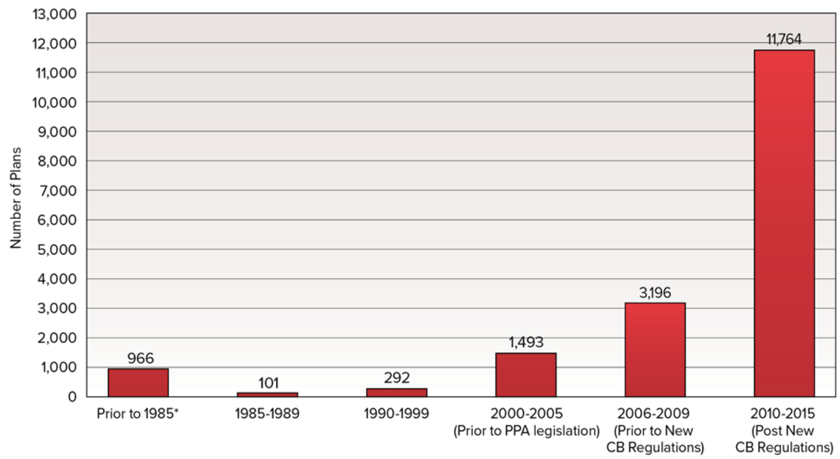
Living History: CB Plans by Year Established



* 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.

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Comparison: Company Contribution to Employee Retirement Accounts

Plan Type	2008	2009	2010	2011	2012	2013	2014	2015
401(k) only*	3%	2.2%	2.2%	2.4%	2.6%	2.8%	3.1%	3.7%
401(k) combined with a Cash Balance plan**	6.2%	5.8%	6%	6.2%	6.3%	6.3%	6.5%	6.6%

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

*Source: data on company contributions to 401(k) plans from Plan Sponsor Council of America (PSCA) 59th Annual Survey data and reports; CB-401(k) combo plans is based on existing Kravitz client plans.

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Cash Balance: Regional Concentration

Rank	State	Number of Plans	Percent of Nation's Total	Percent Annual Increase*
1.	CA	2,384	13%	21%
2.	NY	1,788	10%	14%
3.	IL	1,137	6%	13%
4.	OH	1,129	6%	12%
5.	TX	1,102	6%	18%
6.	FL	1,064	6%	27%
7.	NJ	942	5%	13%
8.	PA	706	4%	11%
9.	MI	649	4%	17%
10.	MD	436	2%	27%
	National Total	**17,812**		

*Increase in total number of plans between 2014–2015, the most recent year for which complete IRS Form 5500 data is available.

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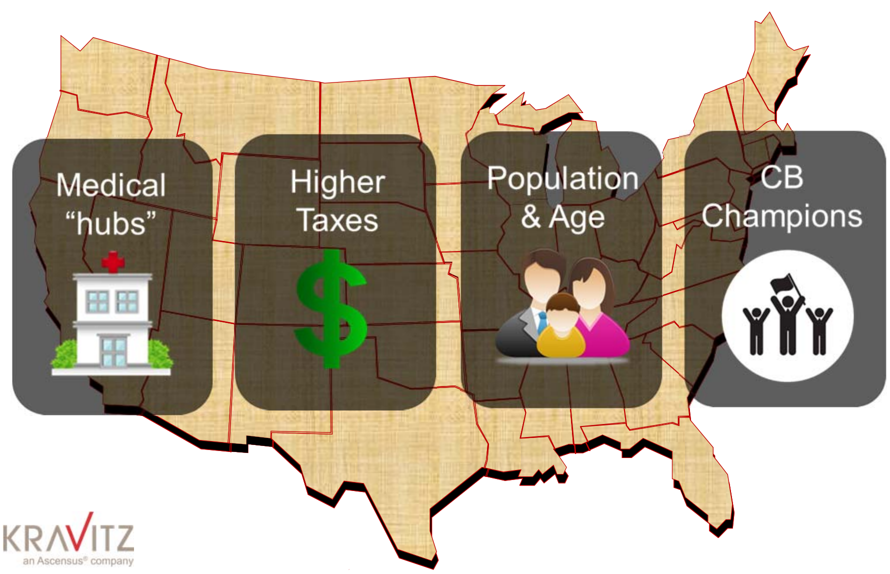
Why Is CB More Popular in Certain States?



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Size Matters: Both Sides of the Story

Cash Balance growth: driven by small business but also popular choice for select larger firms, including Fortune 500 companies.

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92% Have <100 Participants

Participants	Number of Plans	Percent of Nation's Total
Over 10,000	257	1.4%
1,000 to 10,000	581	3.3%
100 to 999	643	3.6%
25 to 99	1,909	10.7%
10 to 24	4,314	24.2%
1 to 9	10,108	56.7%
National Total	**17,812**	

Total participants in Cash Balance plans nationwide: 12.8 million

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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** (Cash Balance combo plans have greater appeal than DC only)
5. **Succession planning** for family businesses

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Large Plans: Top 10 by Asset Size

Top 10 Plans Overall	
1. IBM	$52.6B
2. AT&T	$50.7B
3. Boeing	$28.7B
4. FedEx	$23.9B
5. Bank Of America	$19.5B
6. United Technologies	$18.1B
7. Alcatel-Lucent	$17.7B
8. Honeywell International	$16.6B
9. Northrop Grumman	$15.7B
10. 3M	$15.2B

Top 10 Medical/Hospital Plans	
1. Sutter Health	$3.5B
2. Massachusetts General Hospital	$3.2B
3. Intermountain Healthcare	$2.9B
4. North Shore University Hospital	$2.7B
5. University Of Pittsburgh Medical Center	$1.8B
6. Barnabas Health	$1.6B
7. Brigham and Womens Hospital	$1.3B
8. The Cleveland Clinic Foundation	$1.2B
9. Board of Trustees for Hospital Employees	$1.1B
10. The New York-Presbyterian Hospital	$966M

Top 10 Law Firm Plans	
1. Sidley Austin	$760.7M
2. Skadden, Arps, Slate, Meagher & Flom	$332.9M
3. Morgan, Lewis & Bockius	$310.7M
4. Akin, Gump, Strauss, Hauer & Feld	$288.4M
5. Gibson, Dunn & Crutcher	$209.2M
6. Jones Day	$184.7M
7. Kirkland & Ellis	$160.4M
8. DLA Piper	$151.4M
9. Reed Smith	$146.7M
10. Arnold & Porter	$136.7M

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2 What's Driving the Steep Growth Curve?

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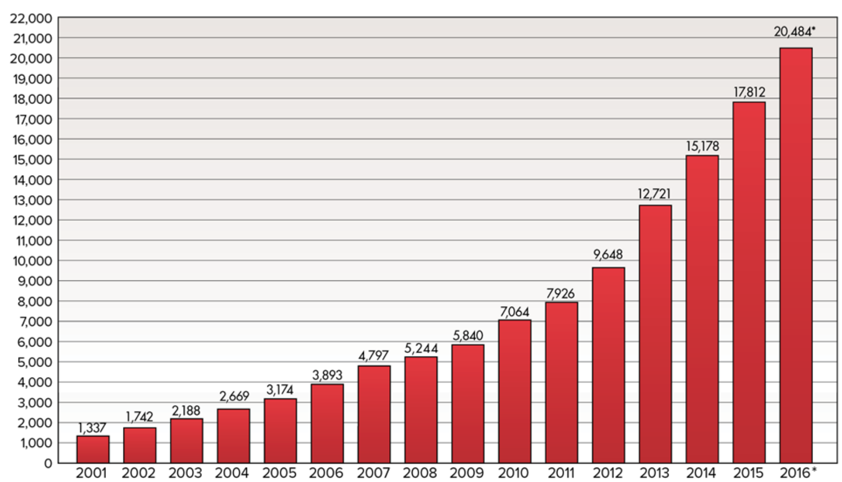
More than a decade of double-digit annual growth:



* Projection based on current growth rates and industry data.

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Key Growth Driver: Tax Environment

2012 Rates		2017 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: "The Gold Standard"

Most desirable type of deduction - Reduces AGI

- ✓ Qualified Retirement Plan Contributions

Below the Line Deductions

Many limitations - Subject to phase outs.*

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

**Subject to phase outs based on income >$250,000 (single) or >$300,000 (married filing jointly)*

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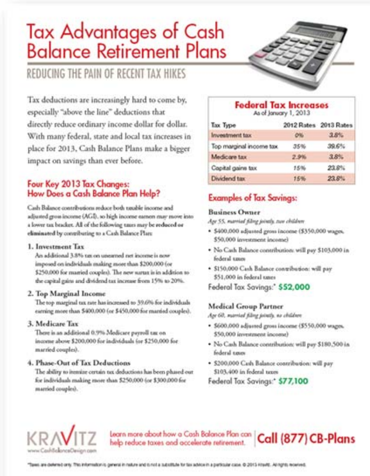
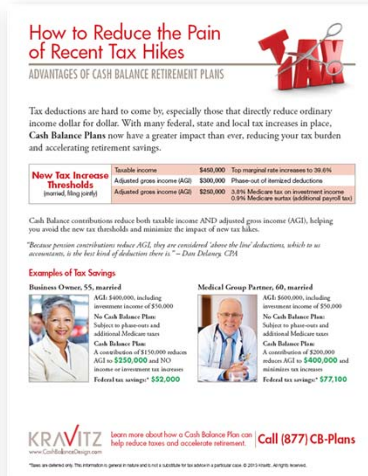
Summary of CB Tax Advantages

Advisor Handout



Client Handout



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Retirement Savings Crisis

THE WALL STREET JOURNAL. ≡ YOUR MONEY

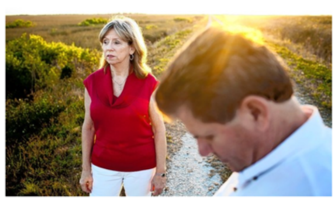
RETIREMENT PLANNING

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" on Savings

2017 Contribution Limits

401(k) Profit Sharing & Cash Balance Plans

Age	401(k) with Profit Sharing	Cash Balance	TOTAL	*Tax savings**
60 - 65	$60,000	$256,000	**$316,000**	*$142,200*
55 - 59	$60,000	$206,000	**$266,000**	*$119,700*
50 - 54	$60,000	$157,000	**$217,000**	*$97,650*
45 - 49	$54,000	$120,000	**$174,000**	*$78,300*
40 - 44	$54,000	$92,000	**$146,000**	*$65,700*
35 - 39	$54,000	$70,000	**$124,000**	*$55,800*
30 - 34	$54,000	$54,000	**$108,000**	*$48,600*

**Assuming 45% tax bracket, taxes are deferred*

Cash Balance lifetime limit: $2,700,000

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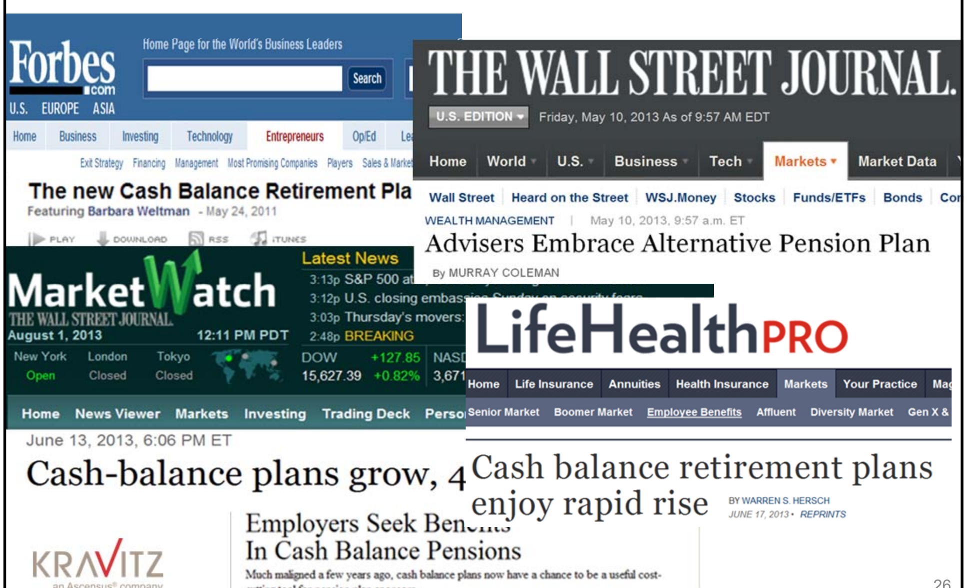
Surge in Media Coverage of CB Plans



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- Tax climate
- Retirement savings crisis
- Legislative and regulatory changes (2006, 2010, 2014)
- Media coverage
- Growing public awareness

A Winning Hand

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3 How to Take Advantage of CB Growth

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You get the growth trends, you have the basic knowledge…

So now what?

5 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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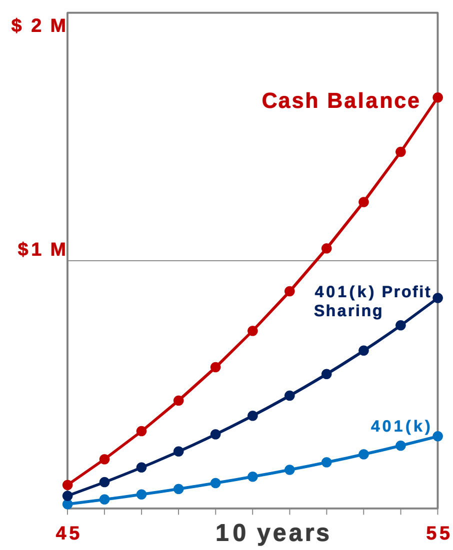
Who is Ideal?

Wealthy boomers who need to squeeze 20 years of retirement savings into 10 years



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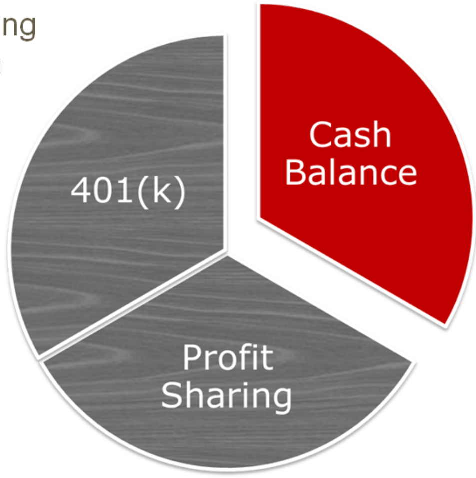
Who is Ideal?

Businesses with an existing **New Comparability** plan



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Who is Ideal?

Professional services firms, including medical groups, CPAs, law firms and financial services

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Who is Ideal?

Successful family businesses and closely held businesses

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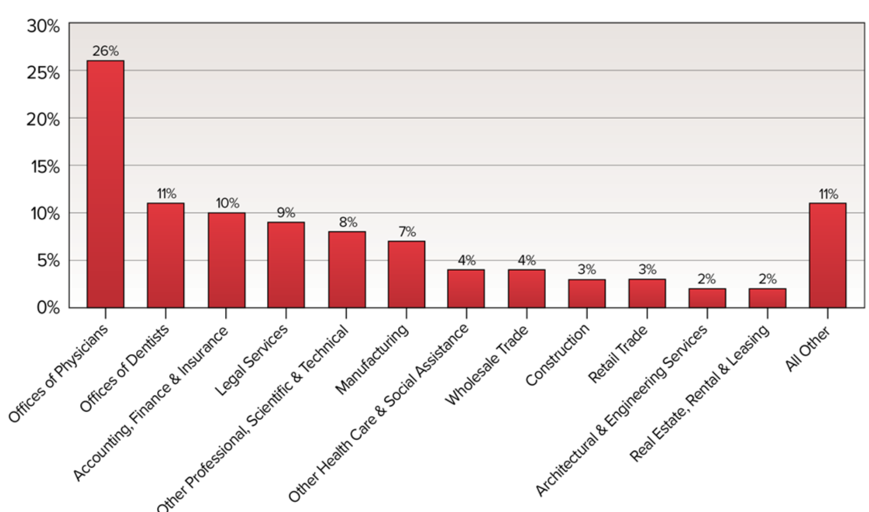
Growth Across Diverse Business Sectors:



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Ever-Increasing Variety of Businesses!

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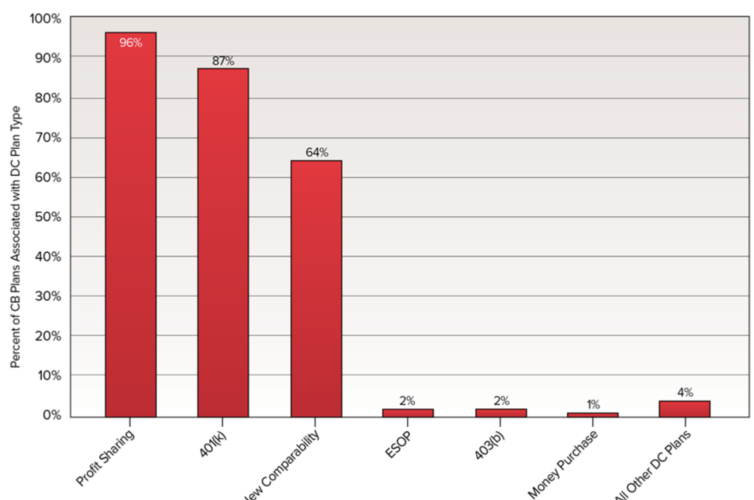
Tip #2: Understand Plan Combinations



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Tip #3:Reach Out to CPAs

- ✓ Some CPAs **unfamiliar** with newer Cash Balance plan designs & flexibility
- ✓ Very **protective** of clients, your job is to build trust

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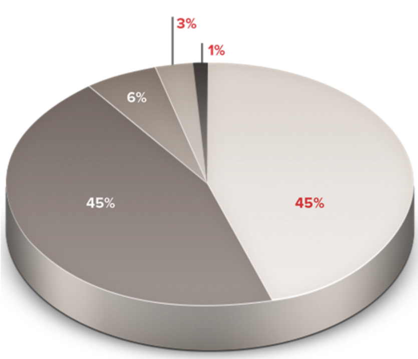
Tip #4: Learn About Cash Balance Investing

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%

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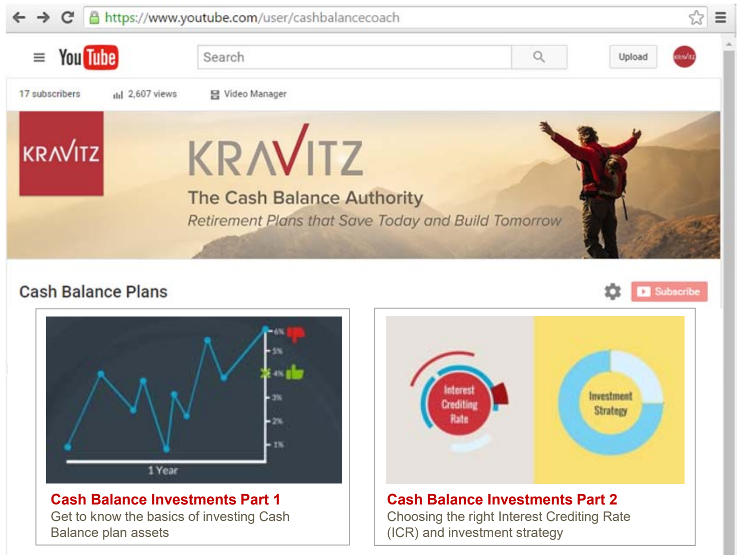
Cash Balance Investment Videos



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Tip #5: Partner with a Cash Balance 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

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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 eye surgeon who just finished training on Lasik. Many 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 partners or shareholders.

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

Cash Balance Plan sales and client retention can be seriously hampered by an actuary's inability to meet deadlines and quickly deliver proposals and client 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 specialized 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 installation includes the plan document. Be wary of very low fees and underbidding. Cheap retirement plans become shockingly expensive when they run into compliance and funding problems and need to be terminated or taken over by 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 ICR. 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, so look for a firm with Cash Balance experience specific to your field. For example, law firm plans usually have multiple tiers of participation and require knowledge of managing partnership risk.

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.

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10 Questions to Ask Your Actuary

Here's How Kravitz Answers!

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

Kravitz implemented one of the first IRS-approved Cash Balance Plans in 1989, and we've worked on more than 2,000 plans in the ensuing 25 years.

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

We currently administer over 500 Cash Balance Plans for clients throughout the U.S., across all industry sectors.

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

Kravitz manages Cash Balance Plans for one to 1,500+ participants. Our typical plan is in the 25–100 participant range.

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

We guarantee 72-hour turnaround on our customized plan design illustrations. Actuarial reports are provided no later than six weeks after finalizing participant statements. Kravitz clients receive a detailed list of Cash Balance Service Standards, and we consistently win praise for our timeliness and quality standards.

5. How many actuaries do you have on staff?

Kravitz has nine dedicated staff actuaries, averaging 20+ years of Cash Balance experience each.

6. What do your fees cover?

Our annual administration fee includes all non-elective administrative requirements with the exception of PBGC filing. Clients have a detailed service agreement explaining all costs, and there are no surprises.

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

Yes, all our clients enjoy seamless online access to their accounts from any computer or mobile device, with statements available on-demand. Kravitz is also the only firm providing daily recordkeeping for Cash Balance accounts.

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

Yes, more than 30% of our large plans use Actual Rate of Return and we have received numerous IRS approval letters. Kravitz was the first TPA in the country to offer clients multiple investment options within a single Cash Balance plan.

9. What industries do you serve?

We have more than 250 medical group and law firm clients, along with many other clients across diverse industry sectors – from manufacturing and technology to retail and real estate.

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

We are happy to provide references – just ask. The average score on our annual Client Satisfaction Survey is 9.4 out of 10, with 92% of clients saying they would recommend Kravitz to a friend or colleague.

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4 Market Trends and Predictions

Key Trends

Key trends impacting today's Cash Balance plan market:

- ✓ **Growing awareness of the new ICR options** - larger plan sponsors are switching to **Actual Rate of Return**
- ✓ **Strategic plan termination** takes on a new role, creating opportunities for plan sponsors and advisers

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 managed

Preservation of Capital Rule

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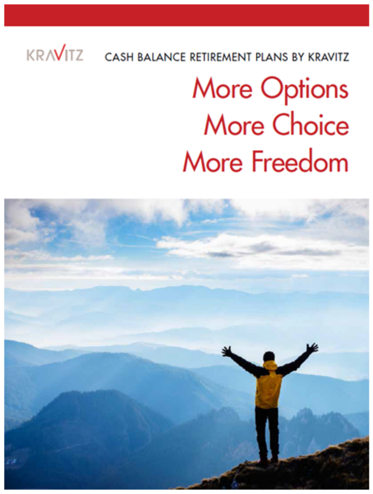
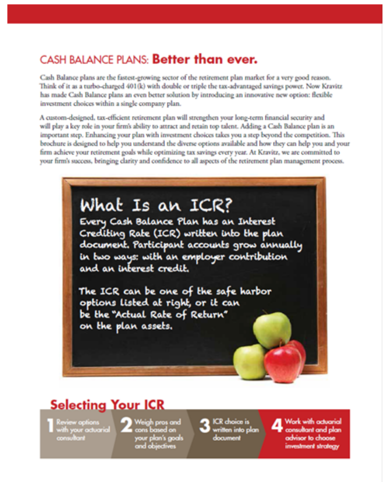
Helpful Guide: Understanding ICRs





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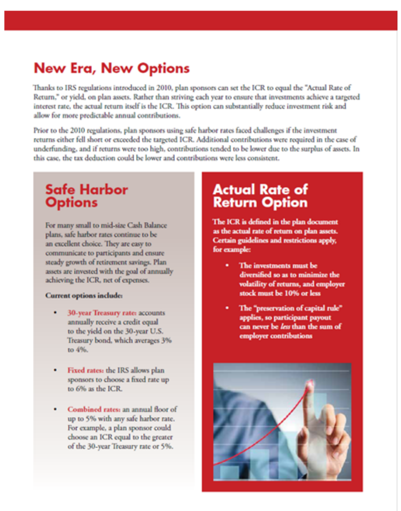
Helpful Guide: Understanding ICRs



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Key Trend: Strategic Plan Terminations

- ✓ **Definition:** when a plan sponsor terminates an existing Cash Balance plan for strategic business reasons, with the express purpose of launching a new Cash Balance plan.
- ✓ **Suitability:** mainly for larger and more mature Cash Balance plans, after expert consultation

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Key Trend: Strategic Plan Terminations

Why are Strategic Plan Terminations becoming an increasingly popular business decision?

1. Eliminates liability issues
2. Option to change the plan's ICR without the hassle of 'wearaway'
3. Access to assets

Caution: *must be done carefully and prudently, with expert actuarial advice, must remain in ful compliance with IRS/DOL rules.*

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Cash Balance 2017 Predictions

1. Prediction: 15%+ Cash Balance growth driven by tax climate, economy, increasing awareness
2. Actual Rate of Return (ARR) replaces fixed rates as most popular option in the large plan market
3. More large firms opt for 'investment choice' Cash Balance plans
4. Increasing competition drives rising innovation in CB products & services

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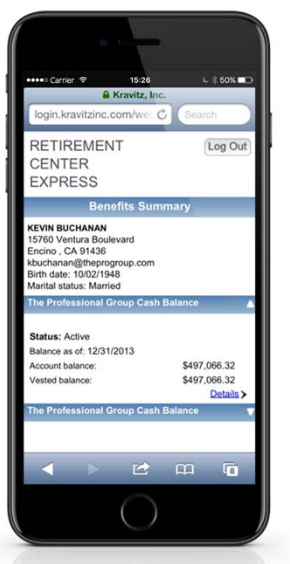
Daily Valuation & Participant Technology



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

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5 How We Can Help You Succeed: Next Steps

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Connect with the Kravitz Cash Balance Team:

Partnerships and support for advisers, TPAs and CPAs: free custom plan designs, conference call support, training, education and more:

877 CB-Plans
CashBalanceDesign.com

@KravitzInc

LinkedIn Cash Balance Consultants

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Free Custom Cash Balance Plan Designs

Name	Age	Annual Salary	401(k)	Profit Sharing	Cash Balance	Total Contribution
Group 1: Owners						
Owner 1	60	$ 270,000	$ 24,000	$ 36,000	$0 to $ 50,000	$ 110,000
Owner 2	50	$ 270,000	$ 24,000	$ 36,000	$0 to $ 50,000	$ 110,000
Owner 3	40	$ 270,000	$ 18,000	$ 36,000	$0 to $ 50,000	$ 104,000
Owner 4	35	$ 270,000	$ 18,000	$ 36,000	$0 to $ 50,000	$ 104,000
Group 2: Staff > $120,000				3% of pay		
Employee 1	50	$ 165,000		$ 4,950	$ 0	$ 4,950
Employee 2	45	$ 125,000		$ 3,750	$ 0	$ 3,750
Group 3: Staff				5% of pay		
Employee 3	65	$ 80,000		$ 4,000	$ 1,000	$ 5,000
Employee 20	21	$ 20,000		$ 1,000	$ 1,000	$ 2,000
Subtotals		$ 1,140,000	$ 0	$ 42,500	$ 18,000	$ 60,500
Grand Totals		$ 2,220,000	$ 84,000	$ 186,500	$ 218,000	$ 488,500
Percent of Contribution to Owners:						87.6%

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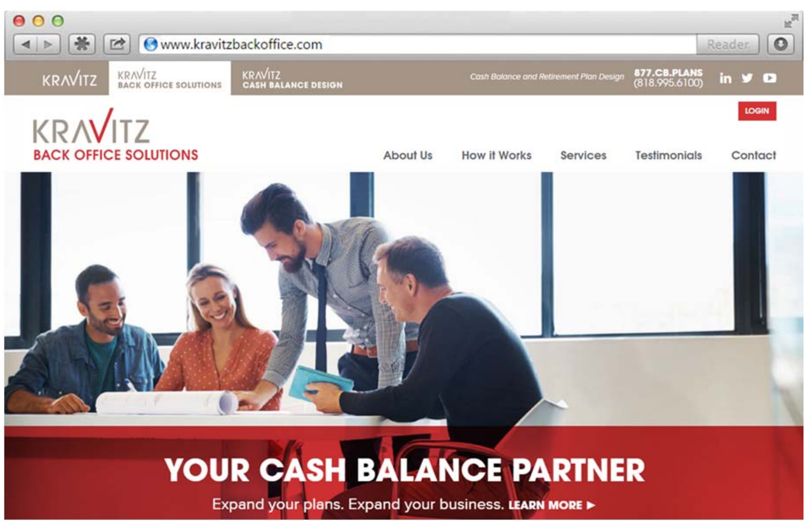
KravitzBackOffice.com



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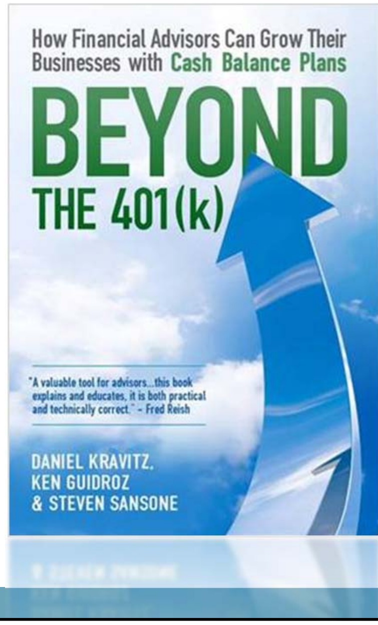
Notes

Beyond the 401(k)



Available in all formats at
Amazon.com

Free chapter at
CashBalanceBook.com

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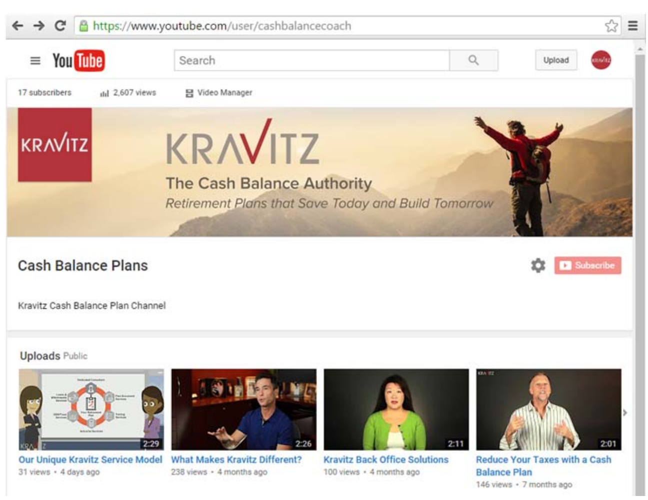
Cash Balance YouTube Channel

www.youtube.com/user/CashBalanceCoach



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Notes

Kravitz Joins the Ascensus Family

ascensus®
Always have a plan

KRAVITZ
The Cash Balance Authority

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KRAVITZ

40th

Anniversary

1977-2017

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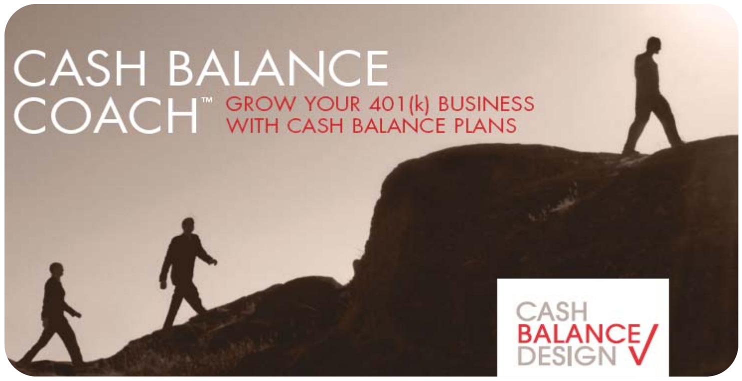
Cash Balance Coach™ Training Program



CashBalanceCoach.com: 1480 alumni and growing!

Fall session dates: Oct 3, 5, 10 & 11

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Earn Cash Balance Consultant (CBC) Designation

Kravitz, Inc. and the Cash Balance Coach® Program

Hereby grant

the designation of

Cash Balance Consultant (CBC)

to signify successful completion of the Cash Balance Consultant Certification Program. In witness thereof, this certification is granted this 25th day of February, two thousand and thirteen.

Cash Balance Coach

Cash Balance Coach

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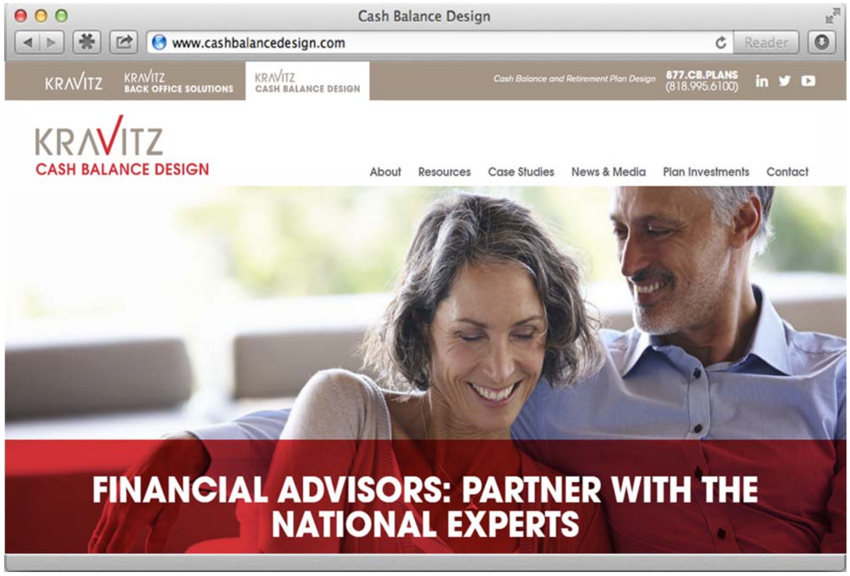
Notes

Online Resources: CashBalanceDesign.com



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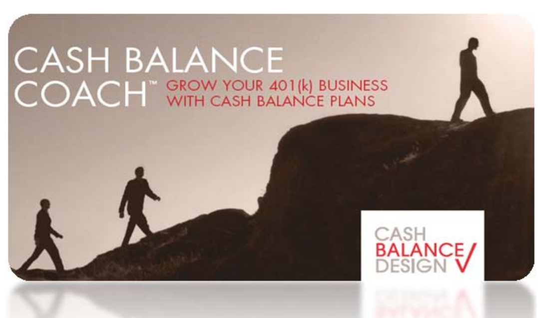
Save the Dates: October 3, 5, 10 & 11
Cash Balance Coach™ Training Program

Fall session – live webcasts & on-demand option

Register at CashBalanceCoach.com



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