CASH BALANCE DESIGN

RETIREMENT PLANS THAT
SAVE TODAY AND BUILD TOMORROW

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# National CASH BALANCE Research Report

## 2011

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# Cash Balance Retirement Plans Surpass Growth Rate of 401(k) Plans

## Average Annual Increase of 20% Since 2001

Kravitz has compiled research on all Cash Balance Plans nationwide as of December 31, 2009, based on the most current IRS Form 5500 filings.* The following statistical highlights, charts and graphs are provided as a reference for retirement plan professionals and others interested in learning more about Cash Balance Plans.

### Highlights:

- **Growth rate of Cash Balance Plans significantly outpaces 401(k) plans:** In the period 2001–2009, the number of 401(k) plans grew an average of 3% annually, versus 20% average annual growth for Cash Balance Plans.

- **Rapid growth despite recession:** There was an 11% increase in the number of Cash Balance Plans in 2009, and an average annual increase of 20% for the decade. In 2001 there were only 1,337 Cash Balance Plans nationwide, and by 2009 there were 5,840, representing 437% growth.

- **Rise of Cash Balance Plans coincides with decline of traditional defined benefit plans:** In 2001, Cash Balance Plans made up just 2.9% of all defined benefit plans. By 2008 they made up 11% of all defined benefit plans, and we project 15% for 2010.

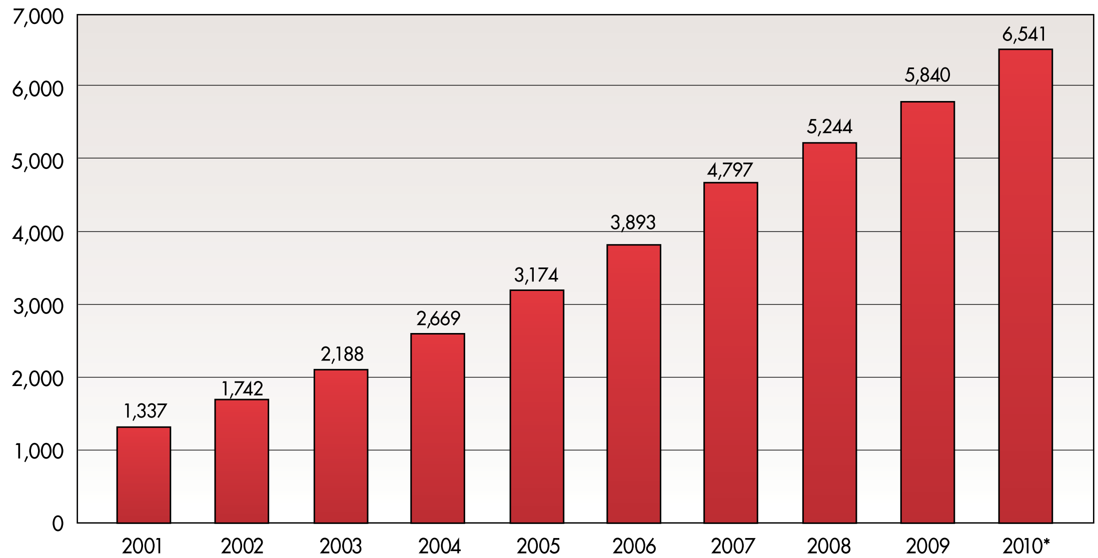
- **Small and mid-size businesses drive Cash Balance growth:** 82% of Cash Balance Plans are in place at firms with less than 100 employees.

- **Most Cash Balance Plans are combined with 401(k) Profit Sharing:** 89% of Cash Balance Plans are combined with a Profit Sharing or 401(k) plan, and more than half of those plans use New Comparability.

- **Regional concentration and highest growth:** California and New York account for 24% of all Cash Balance Plans. Texas outpaced all other states for new plans, with a 47% increase over two years.

**Source:* Analysis performed by Kravitz, Inc., using data from IRS Form 5500 filings via the Judy Diamond Associates, Inc. database. The 2009 plan year data is the most current 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), 2001–2008 Reports.

# Cash Balance Plans:
# Growth 2001 to 2010



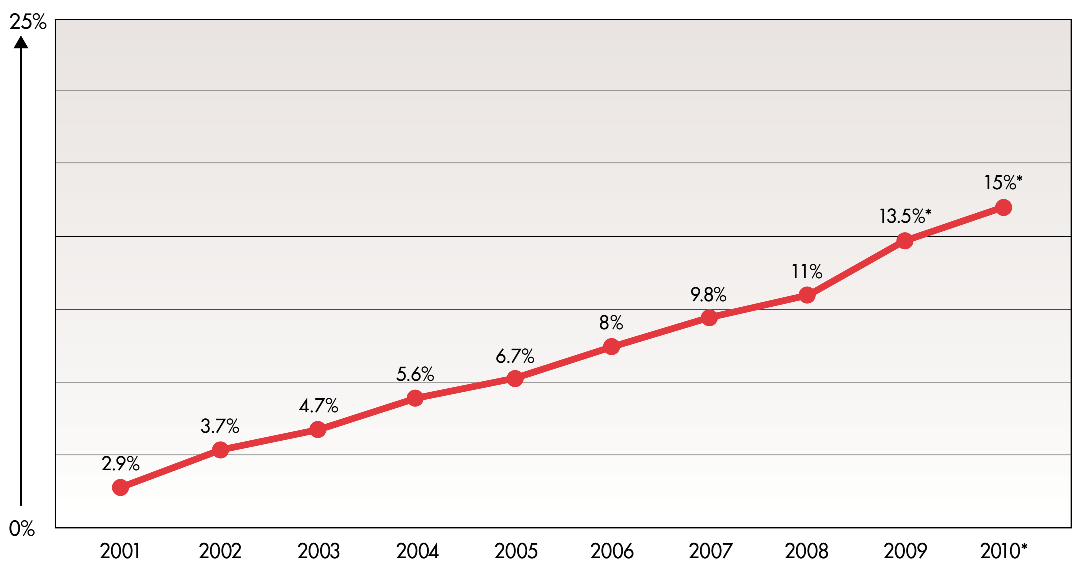

* Projection based on current growth rates and industry data.

Cash Balance Plans have been steadily increasing in popularity over the past decade, coinciding with the decline of traditional defined benefit plans.

## Key factors influencing the growth rate of Cash Balance Plans:

- As "hybrid" plans, they offer the high contribution limits of a defined benefit plan without the cost volatility and interest rate risk. Portability, simplicity and individual account statements are appealing to employees.
- The 2006 Pension Protection Act affirmed their legality and introduced changes to make the plans easier to implement and administer.
- Proposed tax increases (local, state and federal) have prompted many business owners to maximize pre-tax retirement savings.
- Many Baby Boomers who own small businesses have assets tied up in the business; now looking toward retirement, their advisors are recommending asset protection and a qualified plan with the highest possible contribution levels.
- Business owners seeking shelter from market volatility turn to Cash Balance Plans as "safe money" for retirement, conservatively invested with a guaranteed interest crediting rate.

# Cash Balance Plans
## As a Percentage of All defined benefit Plans




* Projection based on current growth rates and industry data.

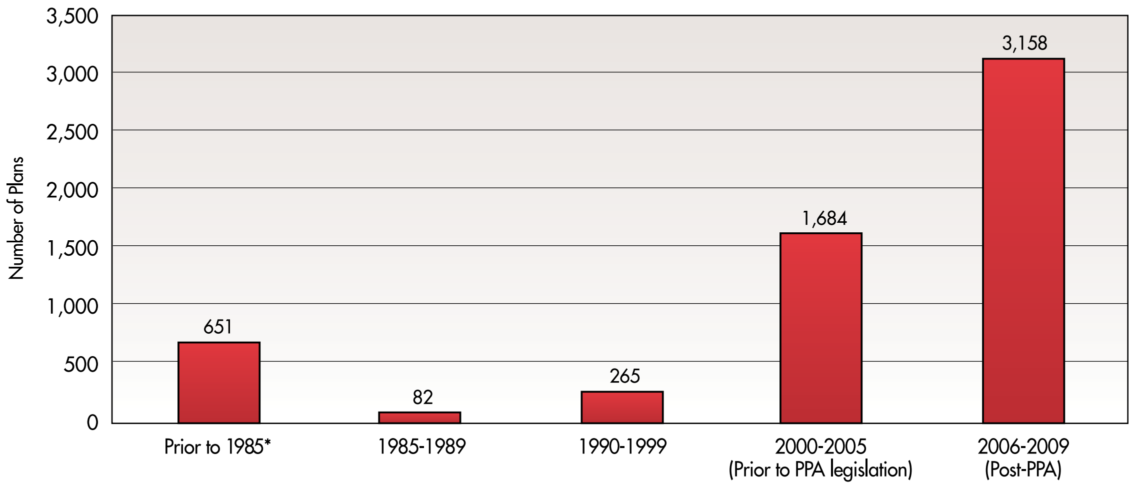
Traditional defined benefit plans have been declining since the mid-1980s, and many larger corporations have converted existing plans to Cash Balance. Cash Balance Plans, also known as "hybrid" plans, are a very popular type of defined benefit plan that have the look and feel of defined contribution plans.

### Advantages of Cash Balance Plans over traditional defined benefit plans:

- Easier to understand and appreciate, with individual account balances (versus "present value of accrued benefit" and complex formulas)
- Removes the interest rate risk that led to constantly changing value of liabilities
- Less cost-volatile than traditional defined benefit plans (which have issues with runaway costs for employees nearing retirement age)
- Allow for more consistent contributions to employees, rather than uneven age-based contributions
- Fully portable: account balances can be rolled over to an IRA

Based on current data, we expect this trend to accelerate. Most new defined benefit plans being implemented today are either hybrids or simple one-person plans, for the reasons discussed above.

# 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 first Cash Balance Plan was established by Bank of America in 1985; however, the plans were not widely adopted until after the Pension Protection Act (PPA) was passed in 2006.

The PPA clarified IRS approval of the plans, removed any remaining uncertainty about their legal status and introduced other changes that simplified implementation and administration of Cash Balance Plans.

## New Cash Balance Regulations likely to accelerate growth:

IRS regulations released in October 2010 provided greater clarity and expanded options for interest crediting rates, making these plans more appealing to employers. We expect to see even stronger growth in Cash Balance Plans over the next five years.

# Cash Balance Plans by Size: Participants

| Participants | Number of Plans | Percent of Nation's Total |
|---|---|---|
| Over 10,000 | 197 | 3.4% |
| 1,000 to 10,000 | 438 | 7.5% |
| 100 to 999 | 397 | 6.8% |
| 25 to 99 | 861 | 14.7% |
| 10 to 24 | 1,461 | 25% |
| 1 to 9 | 2,486 | 42.6% |
| **National Total** | **5,840** | |

**Total participants in Cash Balance Plans nationwide: 10.5 million**

Small to midsize businesses continue to drive the growth of Cash Balance Plans throughout the country. Frequently combined with 401(k) Profit Sharing plans, Cash Balance Plans help small business owners accelerate retirement savings, attract and retain talented employees, and optimize tax efficiency.

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 strained defined benefit plans. Cash Balance and other hybrid options received a high level of media attention last year, frequently cited by industry analysts as a possible solution to the pension funding crisis.

## Other Highlights:

- 82% of Cash Balance Plans are in place at firms with fewer than 100 employees.
- Strength of small business: a sustained 11% annual growth rate in Cash Balance Plans despite the recession indicates continuing strength in the small business sector.
- Highest growth in smaller firms: 68% of plans have 25 or fewer participants; these small plans account for the highest growth among all Cash Balance Plans nationwide.

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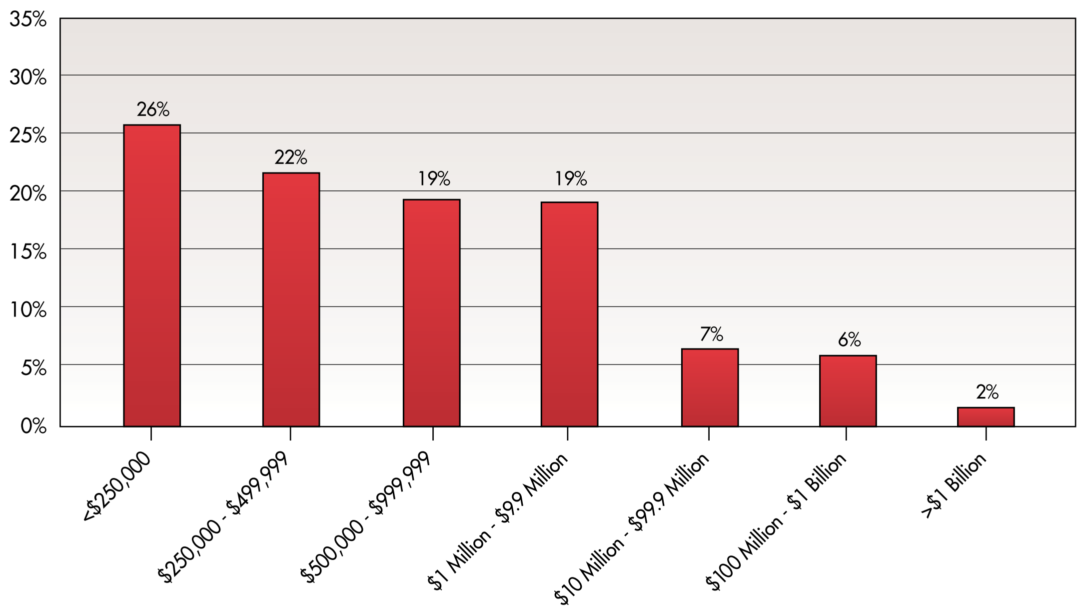
# Cash Balance Plans
# by Asset Size




**Total assets in all Cash Balance Plans nationwide:**
**$606 Billion in 5,840 plans**

Since 54% of Cash Balance Plans were created within past five years (after the 2006 Pension Protection Act clarified their legality), many still have assets under $500,000. We anticipate that this profile will shift over the next decade, as plan assets grow exponentially through large annual contributions and guaranteed interest credits.

For many firms, a Cash Balance Plan is an "add-on" to an existing 401(k) Profit Sharing plan. These established 401(k) plans often have significant assets, and the Cash Balance Plan allows for higher contribution limits, optimal tax efficiency and enhanced employee benefits. The chart on page 9 provides a full profile of defined contribution plans in combination with Cash Balance Plans.

## Other Highlights:

- The median asset size of a Cash Balance Plan in 2009 was $539,000.
- Growth: 34% of Cash Balance Plans now have assets over $1M, and 8% have assets over $100M.
- Stability: because Cash Balance Plan investments are typically tied to a benchmark such as the 30-year Treasury rate, assets are invested conservatively and do not fluctuate dramatically with market swings as seen in 401(k) plans.

# Cash Balance Plans: Regional Concentration

| Rank | | State | Number of Plans | Percent of Nation's Total | Percent Increase |
|---|---|---|---|---|---|
| 1 | (1)* | CA | 741 | 13% | 12% |
| 2 | (2) | NY | 626 | 11% | 13% |
| 3 | (3) | OH | 436 | 7% | 14% |
| 4 | (5) | IL | 402 | 7% | 27% |
| 5 | (4) | NJ | 392 | 7% | 24% |
| 6 | (8) | TX | 293 | 5% | 47% |
| 7 | (6) | PA | 276 | 5% | 7% |
| 8 | (7) | FL | 240 | 4% | 11% |
| 9 | (9) | MI | 230 | 4% | 33% |
| 10 | (10) | MN | 172 | 3% | 4% |

* Previous Rank

**National Total** **5,840**

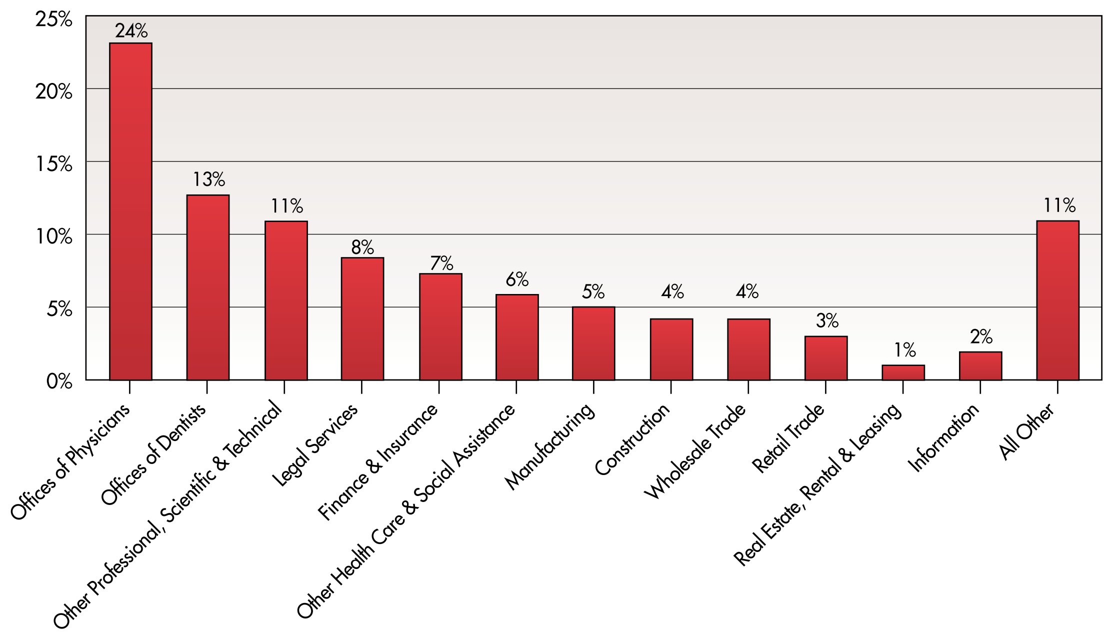
California and New York continue to dominate the Cash Balance sector with the highest total number of plans (1,367) and over 12% growth since our last report. However, the fastest growth in new plans has been in Texas, Illinois and New Jersey.

Since Cash Balance Plans are most commonly adopted by successful, profitable small to midsize businesses, their steady growth is an indicator of the regional health of small business.

## Other Regional Highlights:

- California and New York together account for 24% of all Cash Balance Plans nationally, followed by Ohio and Illinois.
- The growth of Cash Balance Plans in Texas far outpaced any other state – a 47% increase over two years. Texas rose in our Cash Balance Top 10 ranking from 8th to 6th place.
- Growth of Cash Balance Plans in Pennsylvania and Minnesota has slowed, while New Jersey and Illinois are outpacing all other states except Texas.

# Cash Balance Plans
# by Business Type




Cash Balance Plans continue to demonstrate rapid growth in the healthcare sector, since they are particularly well-suited for the retirement planning needs of professional services firms. The flexibility of Cash Balance Plans in terms of age-weighted contribution limits has also made them a popular choice for law firms.

Business owners in many other sectors, from finance and technology to manufacturing and retail, are also turning to Cash Balance plans to improve retirement planning options. As CPAs, wealth managers and financial advisors increasingly incorporate Cash Balance Plans into their recommendations for clients, we expect to see continuing diversification among the businesses adopting these unique hybrid plans.

- Medical and dental groups together accounted for 37% of all Cash Balance Plans nationally; that number rises to 43% when all healthcare and social services related groups are included.

- The "Other" category (11% of all Cash Balance Plans) covers a diverse range of firms, including astrologers, auctioneers, animal groomers, bars, bagel shops, religious institutions, museums and ski resorts.

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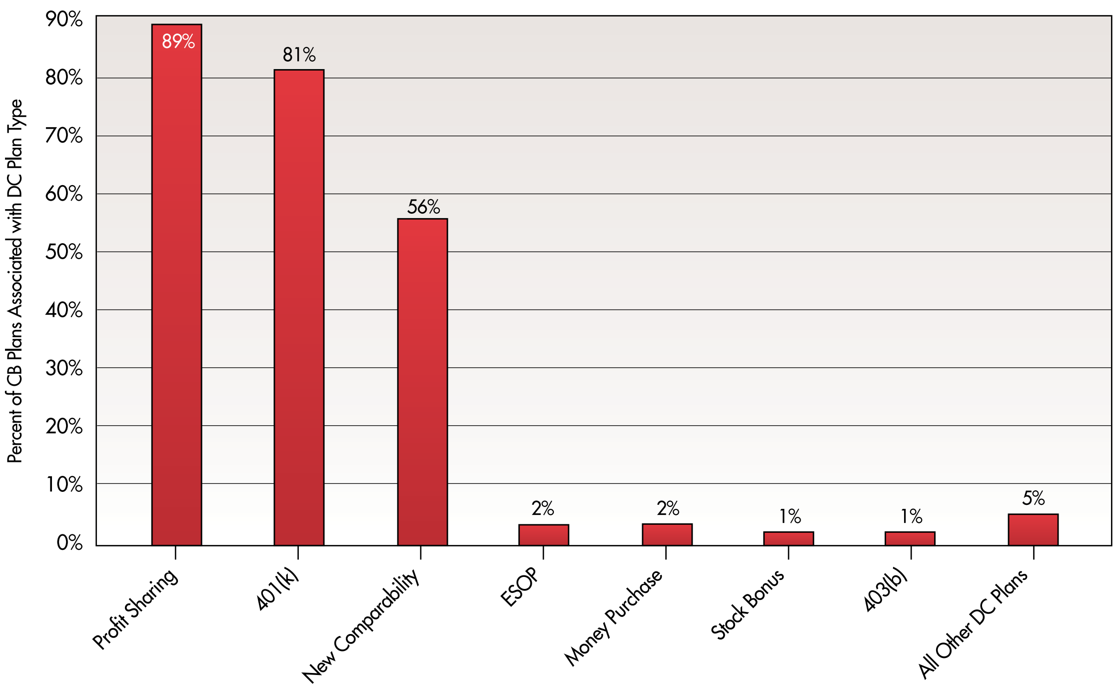
# Defined Contribution Plans
# Associated with Cash Balance Plans




Almost all Cash Balance Plans are combined with a defined contribution plan, typically a 401(k) Profit Sharing Plan. This combination allows business owners to maximize contribution levels, flexibility and tax efficiency.

When a Cash Balance Plan is added to an existing 401(k) Profit Sharing Plan, the plans are "cross-tested" to demonstrate fairness for annual IRS nondiscrimination testing. It is important to have an experienced, technically skilled actuarial consultant design a retirement program that will achieve the plan sponsor's goals while passing all IRS tests.

# 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 1,200 retirement plans across the country, helping more than 150,000 people retire successfully.

Headquartered in Los Angeles, Kravitz has offices in New York and satellite offices in nine other states. The Kravitz team of 75 employees includes 10 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 450 financial advisors and retirement professionals have enrolled, earning certification as Cash Balance Consultants. In 2010, Kravitz published *Beyond the 401(k)*, a well-received book on the topic of Cash Balance Plans as a business growth strategy.

For more information, visit www.CashBalanceDesign.com.

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