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2012 National **CASH BALANCE** Research Report

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Cash Balance Retirement Plans Double Projected Growth Rate **21% increase in new plans, 18% increase in assets**

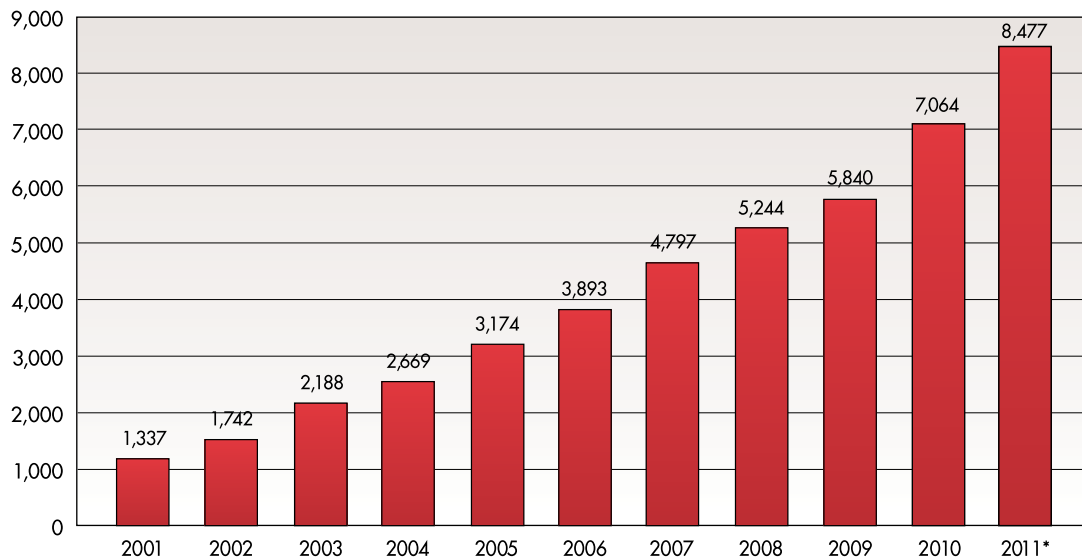
Kravitz annually compiles research on all Cash Balance Plans based on the most current IRS Form 5500 filings.* The statistical highlights, charts and graphs in this report are provided as a reference for retirement plan professionals and others interested in learning more about Cash Balance Plans.

Highlights:

- **Growth in Cash Balance Plans dramatically exceeds expectations:** the number of Cash Balance retirement plans grew 21% between 2009 and 2010, almost double the previous year's growth rate of 11%. The number of 401(k) plans shrank slightly in the same period, down 1%.
- **Stalled economy no deterrent to adoption of new plans:** despite the slow recovery and economic uncertainty, adoption of Cash Balance Plans continued to grow dramatically. Between 2008 and 2010, there was a 38% increase in new plans.
- **Cash Balance Plans continue to significantly outpace the growth of 401(k) plans:** in the period 2001-2010, the number of 401(k) plans grew less than 3% annually, versus 20% average annual growth for Cash Balance Plans. In 2001, there were only 1,337 Cash Balance Plans nationwide, and by 2010 there were 7,064, representing 810% growth in a little under a decade.
- **Companies more than double contributions to employee retirement savings when adding a Cash Balance Plan:** the average employer contribution to staff retirement accounts is 6% of pay in companies with both Cash Balance and 401(k) plans, compared with 2.3% of pay in firms with 401(k) alone.
- **Small and mid-size businesses drive Cash Balance growth:** 84% of Cash Balance Plans are in place at firms with less than 100 employees.
- **Cash Balance Plans now make up almost 20% of all defined benefit plans:** in 2001, Cash Balance Plans made up just 2.9% of all defined benefit plans; in 2010, the number was 16%, expected to reach 20% when 2011 data becomes available.
- **California and New York have the most plans, while the fastest growth is in Florida, Texas and Michigan:** California and New York account for 23% of all Cash Balance Plans nationally, but the fastest-growing regions for new plans are Florida, Texas and Michigan.

*Source: Analysis performed by Kravitz, Inc., using data from IRS Form 5500 filings via the Judy Diamond Associates, Inc. database. The 2010 plan year data is the most current complete data set 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).

Cash Balance Plans: Growth 2001 to 2011



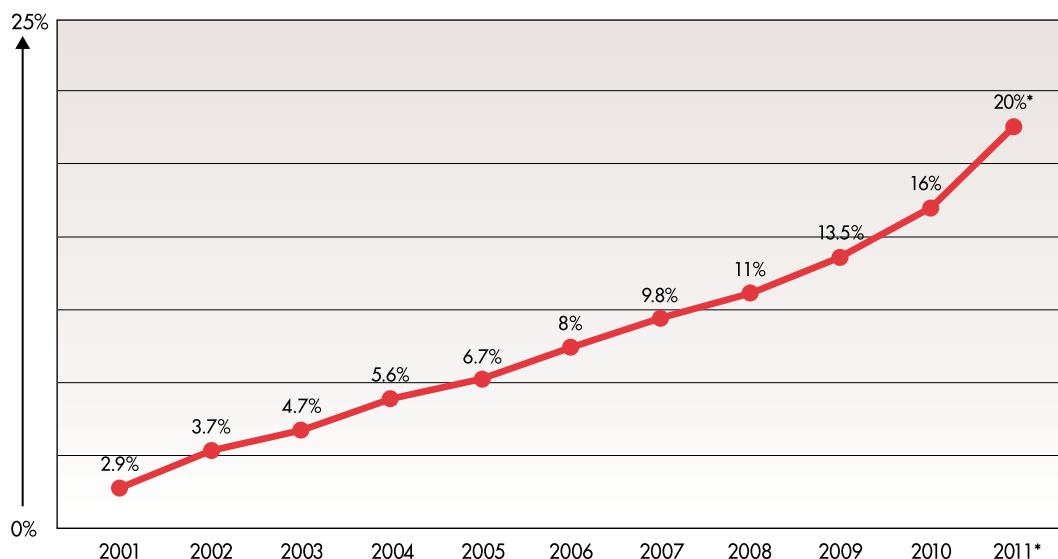
* Projection based on current growth rates and industry data.

Cash Balance Plans have surged in popularity since 2001, with double-digit annual growth averaging 20% each year of the decade.

What's driving the dramatic growth in Cash Balance Plans?

- **Best of both worlds:** these "hybrid" plans combine the high contribution limits of a traditional defined benefit plan with the flexibility and portability of a 401(k) plan.
- **Legal clarity and increasing simplicity:** the 2006 Pension Protection Act affirmed the legality of Cash Balance Plans and introduced changes to make the plans easier to implement and administer.
- **Tax climate:** increases (actual and proposed) in local, state and federal taxes have motivated many business owners to maximize tax-deferred retirement savings and take advantage of tax deductions for contributions to employee retirement accounts.
- **Baby Boomer retirement anxiety:** widespread media coverage of the Boomer generation's lack of retirement preparedness is prompting older business owners to accelerate savings and maximize qualified plan contributions.
- **Response to market volatility:** since the crash of 2008 and the continuing volatility of 401(k) investments, business owners and their advisers are increasingly turning to Cash Balance Plans for a "safe money" option. The guaranteed interest crediting rate dictates a conservative, absolute-return-based investment strategy.

Cash Balance Plans As a Percentage of All Defined Benefit Plans



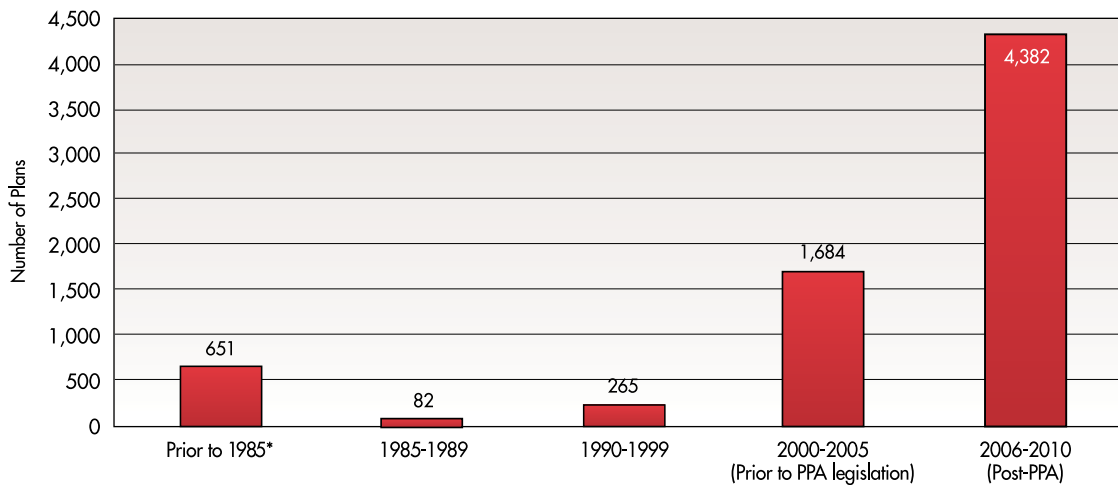
* Projection based on current growth rates and industry data.

Traditional defined benefit plans have been steadily declining since the mid-1980s, due to a complex array of risk issues, runaway costs, and major changes in workforce demographics and the economy. Many larger corporations converted existing defined benefit plans to Cash Balance, while hybrid plans also became increasingly popular with small to mid-size businesses.

Why are Cash Balance Plans replacing traditional defined benefit plans?

- **Lower risk:** Cash Balance Plans remove the interest rate risk that led to constantly changing value of liabilities in traditional defined benefit plans.
- **Removing cost volatility:** the structure of a Cash Balance Plan prevents runaway costs for employees nearing retirement age.
- **Easier to understand and appreciate:** Cash Balance Plans are similar to 401(k) plans with individual account balances; some plans even offer participant websites with daily updates.
- **Consistency and fairness:** these plans allow for more consistent contributions to employees, rather than uneven age-based contributions.
- **Full portability:** account balances can be rolled over to an IRA, a necessary option for today's mobile workforce where many employees change jobs every few years.

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 number of Cash Balance Plans nationwide has almost tripled in the six years since the Pension Protection Act (PPA) came into effect in 2006. The first Cash Balance Plan was established by Bank of America in 1985, but this segment of the retirement plan market remained relatively unknown for the next two decades.

How are legislative changes accelerating the growth of Cash Balance Plans?

2006 Pension Protection Act: this law 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. Thanks to this legislative shift, the plans became a popular and viable choice for many small business owners and have made a great contribution to retirement readiness for millions of Americans.

2010 IRS Cash Balance regulations: new regulations published in 2010 provided greater clarity and expanded options for interest crediting rates, making these plans more appealing to employers. These new regulations also generated widespread media coverage and greater national awareness of the high contribution limits, tax advantages and recruitment/retention potential of adding a Cash Balance Plan. Revisions and final versions of these regulations are in process, and seem likely to increase the popularity of these plans.



Cash Balance Plans by Size: Participants

Participants	Number of Plans	Percent of Nation's Total
Over 10,000	218	3.1%
1,000 to 10,000	457	6.5%
100 to 999	438	6.2%
25 to 99	948	13.4%
10 to 24	1,770	25%
1 to 9	3,233	45.8%
National Total	7,064	

Total participants in Cash Balance Plans nationwide: 11.1 million

Small to mid-size businesses continue to drive the growth of Cash Balance Plans throughout the country. The highest growth over the past five years has been in companies with fewer than 50 employees, and 84% of plans are in place at firms with fewer than 100 employees.

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 troubled defined benefit plans.

What makes Cash Balance Plans so attractive to small business owners?

- **Cost efficiency and tax efficiency:** after staff costs, taxes are usually the largest expenditure for small businesses. Cash Balance Plans help owners with a significant tax deduction for employee contributions, plus a major tax-deferred retirement contribution for themselves.
- **Asset protection:** as with any IRS-qualified retirement plan, Cash Balance assets are protected in the event of a lawsuit or bankruptcy.
- **Catching up on delayed savings:** age-weighted contribution limits allow older owners to squeeze 20 years of savings into 10.
- **Attracting and retaining talented employees:** defined benefit plans such as Cash Balance have a greater appeal to employees than a typical 401(k) plan, and allow small business owners to offer a competitive recruitment advantage.

Cash Balance Plans: Company Contributions to Employee Retirement Accounts

Plan Type	2008	2009	2010
401(k) only*	2.9%	2.1%	2.3%
401(k) combined with a Cash Balance Plan	6.2%	5.8%	6%

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

Companies typically double contributions to employee retirement savings when adding a Cash Balance Plan

- **6% of pay** – average employer contribution to non-owner employees in companies with both Cash Balance and 401(k)
- **2.3% of pay** – average employer contribution to non-owner employees in companies with 401(k) only

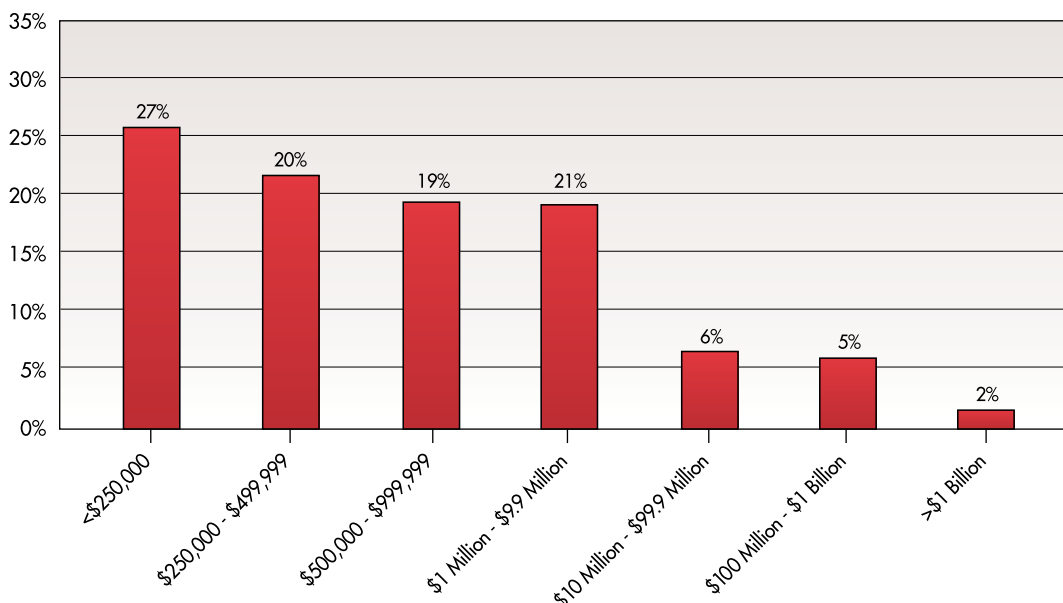
Typically, Cash Balance Plans require employers to contribute 5% to 8% of pay to non-highly compensated employees in order to contribute larger amounts for the owners. This is often double or even triple the amount employees receive at firms without Cash Balance plans.

Cash Balance Plans provide other advantages to employees:

- Employees do not have to reduce their pay in order to receive an employer contribution, since Cash Balance contributions (sometimes satisfied through a Profit Sharing plan) are not based on a "match."
- Employees do not have to choose their own investments or bear any investment risk. They receive a guaranteed annual investment credit regardless of market conditions.
- Plan assets are pooled and invested by the plan sponsor using a conservative benchmark, so retirement savings are protected from market fluctuations.
- Accounts are portable and can be rolled over into an IRA when an employee leaves or retires; alternately, participants can choose an annuity option upon retirement.

*Source for data on employer contributions to 401(k) plans, 2008-2010: Profit Sharing Council of America, *54th Annual Survey of Profit Sharing and 401(k) Plans*.

Cash Balance Plans by Asset Size



**Total assets in all Cash Balance Plans nationwide:
\$713 Billion in 7,064 plans – 18% annual increase**

Cash Balance assets increased 18% from \$606B to \$713B between 2009 and 2010, and are projected to reach \$1 trillion by the end of 2012. More than 60% of Cash Balance Plans were established within the past six years, after the 2006 Pension Protection Act clarified their legality. As relatively new plans, many still have assets under \$500,000. This asset profile will shift over the next decade, as many business owners seek to maximize tax-deferred savings for themselves and optimize tax-efficient contributions to employees.

For many firms, a Cash Balance Plan is an “add-on” to an existing 401(k) Profit Sharing plan that already has significant assets. The chart on page 10 provides a full profile of defined contribution plans in combination with Cash Balance Plans.

Highlights: steady, stable growth

- The median asset size of a Cash Balance Plan is \$559,000.
- 34% of Cash Balance Plans have assets over \$1M.
- Cash Balance accounts increase each year in two ways: through an employer contribution (a flat amount or a percentage of pay) and through a guaranteed interest credit. Both are specified in the plan document.
- Plan investments are typically tied to a benchmark such as the 30-year Treasury rate, so assets must be invested conservatively and do not fluctuate dramatically with market swings.



Cash Balance Plans: Regional Concentration

Rank	State	Number of Plans	Percent of Nation's Total	Percent Annual Increase*
1	CA	858	12%	16%
2	NY	758	11%	21%
3	OH	513	7%	18%
4	IL	490	7%	22%
5	NJ	479	7%	22%
6	TX	380	5%	30%
7	PA	326	5%	18%
8	FL	322	5%	34%
9	MI	289	4%	26%
10	MN	184	3%	7%
National Total		7,064		

*Increase in total number of plans between 2009-2010, the most recent year for which complete IRS Form 5500 data is available.

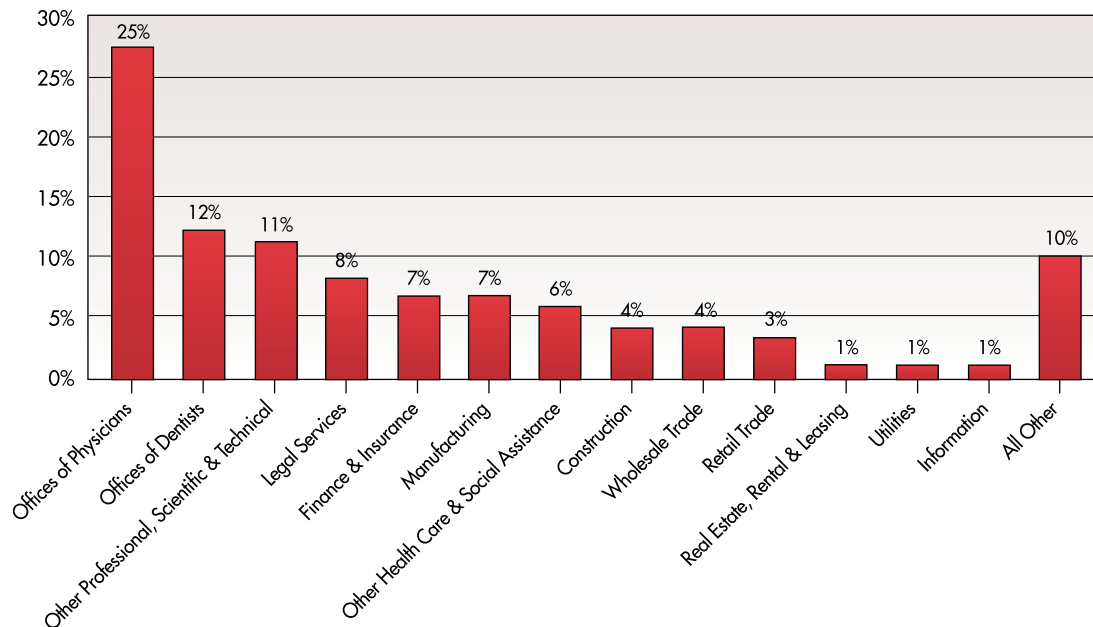
California and New York continue to dominate the Cash Balance sector with the highest total number of plans (1,616) and close to 20% growth since our last report. However, the fastest regional growth in new plans can be seen in Florida, Texas, and Michigan.

Since Cash Balance Plans are most frequently adopted by successful, profitable small to mid-size businesses, their growth rates may be seen as an indicator of the regional health of small business.

Other Regional Highlights:

- California and New York together account for 23% of all Cash Balance Plans nationally, closely followed by Ohio and Illinois.
- Florida has outpaced Texas as the Cash Balance growth leader, with a 34% increase in new plans between 2009 and 2010, compared with a 30% increase for Texas.
- The ranking of our Top 10 states for Cash Balance Plans remains unchanged this year, although Massachusetts and Virginia are closing in on Minnesota for 10th place.
- Other states where adoption of Cash Balance Plans is increasing dramatically include Arizona, North Carolina and Idaho.

Cash Balance Plans by Business Type

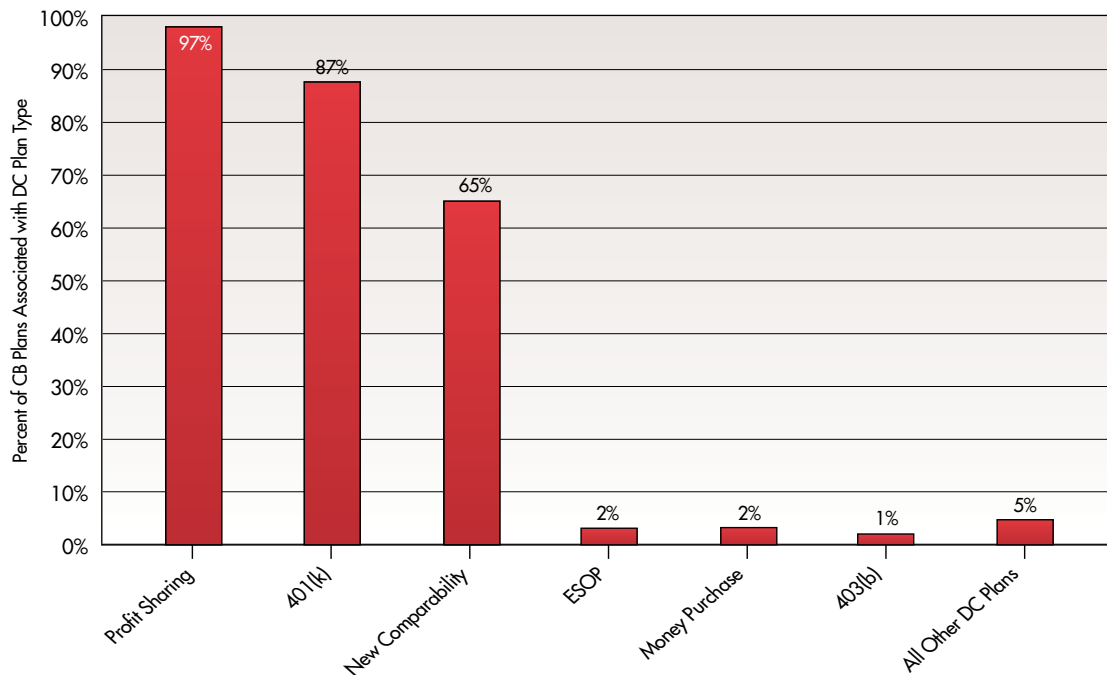


America's healthcare, technical, legal and financial services sectors continue to lead the way in adopting Cash Balance Plans. These plans are an excellent fit for the retirement needs of professional services firms, in particular because of their flexibility for multi-partner firms and the age-weighted contribution limits allowing older owners to double or triple pre-tax retirement savings.

Highlights of Cash Balance Plan adoption across diverse business sectors:

- Manufacturing firms rose from 5% to 7% of all Cash Balance Plans, a promising sign for the economy since owners need fairly predictable profit levels to meet the plan's financial commitment.
- Medical and dental groups account for 37% of all Cash Balance Plans nationally, and we expect to see continued growth in the healthcare sector as the economy adjusts to the requirements of the Patient Protection and Affordable Care Act.
- With many CPA and financial advisory organizations educating practitioners about Cash Balance Plans, we expect even greater diversification of business types adding these plans.
- The "Other" category (10% of all Cash Balance Plans) includes everything from farms and bakeries to jewelers, animal groomers and ski resorts.

Defined Contribution Plans Associated with Cash Balance Plans



- Very few firms have a stand-alone Cash Balance Plan; today 97% offer Cash Balance Plans in combination with one or more defined contribution plans. The most common combination is Cash Balance with a 401(k) and/or Profit Sharing plan, allowing business owners to maximize contribution levels, flexibility and tax efficiency.
- When a firm offers a combination of retirement plans, the IRS requires “cross-testing” to ensure fairness to all employee groups across all compensation levels. It is important to have an experienced, technically skilled actuarial consultant design a Cash Balance retirement program that will achieve the plan sponsor’s goals while passing all IRS tests every year.
- The average employer contribution to staff retirement accounts is 6% of pay in companies with both Cash Balance and 401(k) plans, compared with 2.3% of pay in firms with 401(k) alone.
- Thanks to steadily increasing demand for creative plan designs combining Cash Balance, 401(k) and Profit Sharing, top retirement plan consultants are finding new opportunities to develop a niche specialty with a competitive edge.



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 550 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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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.

Design, Administration and Management of Retirement Plans

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