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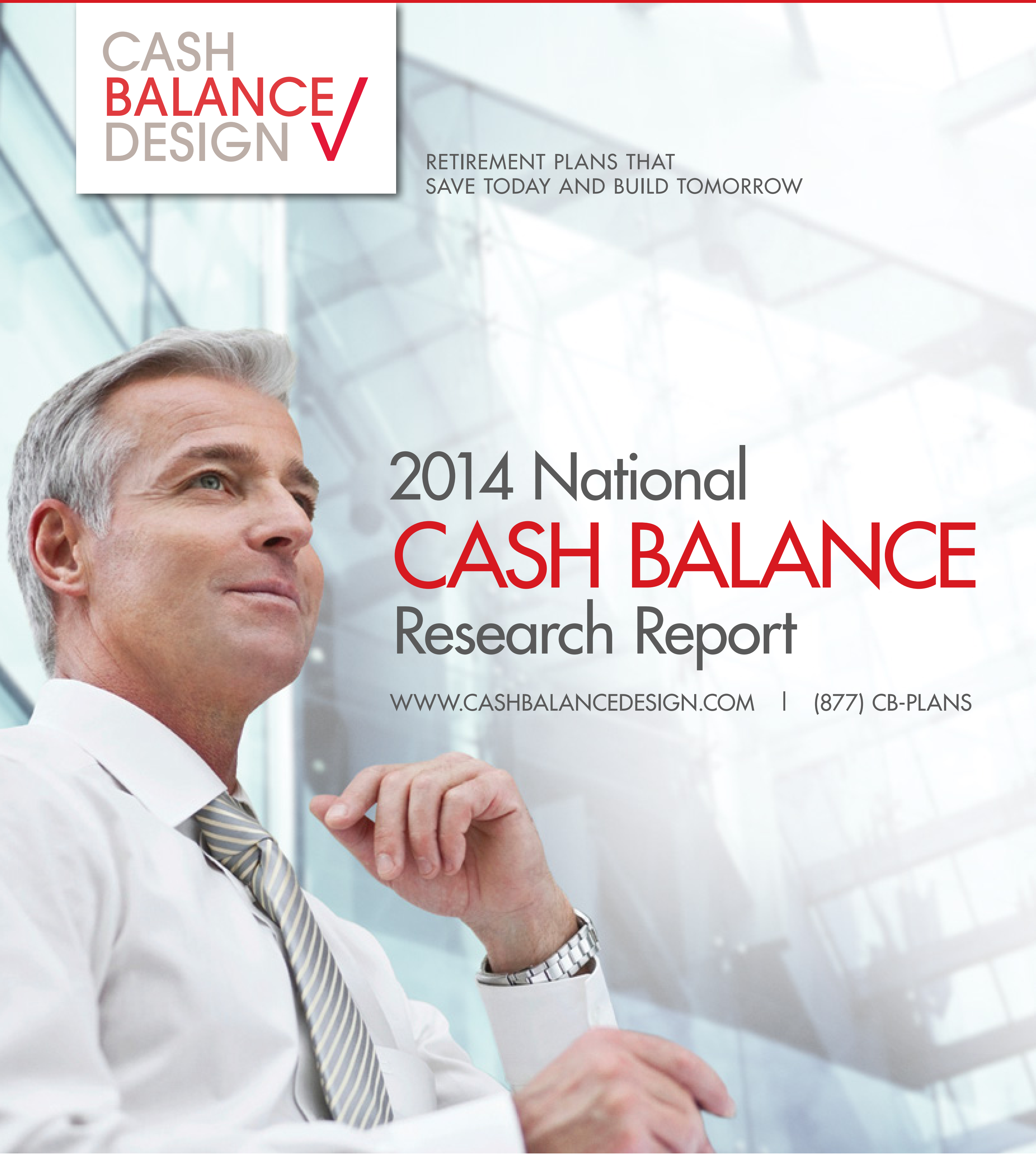

2014 National CASH BALANCE Research Report

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Cash Balance Plan Growth Soars 22% While 401(k) Market Remains Flat

Rising taxes and small business confidence drive double-digit growth

Kravitz has been tracking the annual growth rate and related statistics on Cash Balance retirement plans since 2008. Each year, we publish a national research report analyzing comprehensive Cash Balance data from the most recent IRS Form 5500 filings.* These statistical highlights, charts and graphs are provided as a reference for retirement plan professionals, the media, and others interested in learning more about Cash Balance Plans.

Highlights:

- **The Cash Balance Plan market surged 22% versus a 1% increase in number of 401(k) plans:** Despite a strengthening economy, the 401(k) market remained flat between 2011 and 2012, the most recent year for which IRS data is available. In contrast, the number of Cash Balance Plans grew 22%, surpassing industry projections of a 15% annual increase.
- **Cash Balance Plans now make up 25% of all defined benefit plans, up from 2.9% in 2001:** The rise of Cash Balance Plans coincides with steady decline in traditional defined benefit plans, a topic explored in more detail on page 3 of this report.
- **Small and mid-size businesses are driving Cash Balance growth:** 87% of Cash Balance Plans are in place at firms with less than 100 employees; the highest growth is in those with 25 or fewer employees.
- **Companies more than double contributions to employee retirement savings when adding a Cash Balance Plan:** The average employer contribution to staff retirement accounts is 6.3% of pay in companies with both Cash Balance and 401(k) plans, compared with 2.6% of pay in firms with 401(k) alone.
- **California and New York have the most plans, while the fastest growth is in Texas and Florida:** California and New York account for 23% of all Cash Balance Plans, but many other regions demonstrate faster growth in adopting new plans.
- **Actual Rate of Return plans gain popularity:** IRS regulations released in 2010 allow many alternatives to traditional safe harbor rates. Many larger Cash Balance Plans are now using "Actual Rate of Return" to reduce investment risk for the employer. See page 10 for more information.

**Source:* Analysis performed by Kravitz, Inc., using data from IRS Form 5500 filings via the Judy Diamond Associates, Inc. database. The 2012 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), 2001–2012 Reports.

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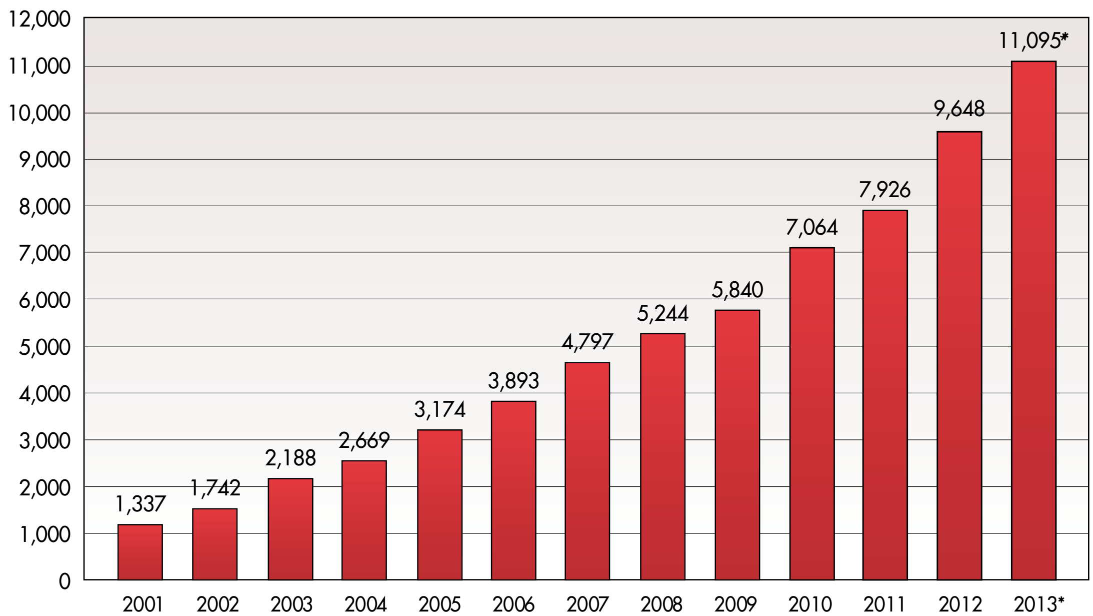
Cash Balance Plans:
Growth 2001 to 2013



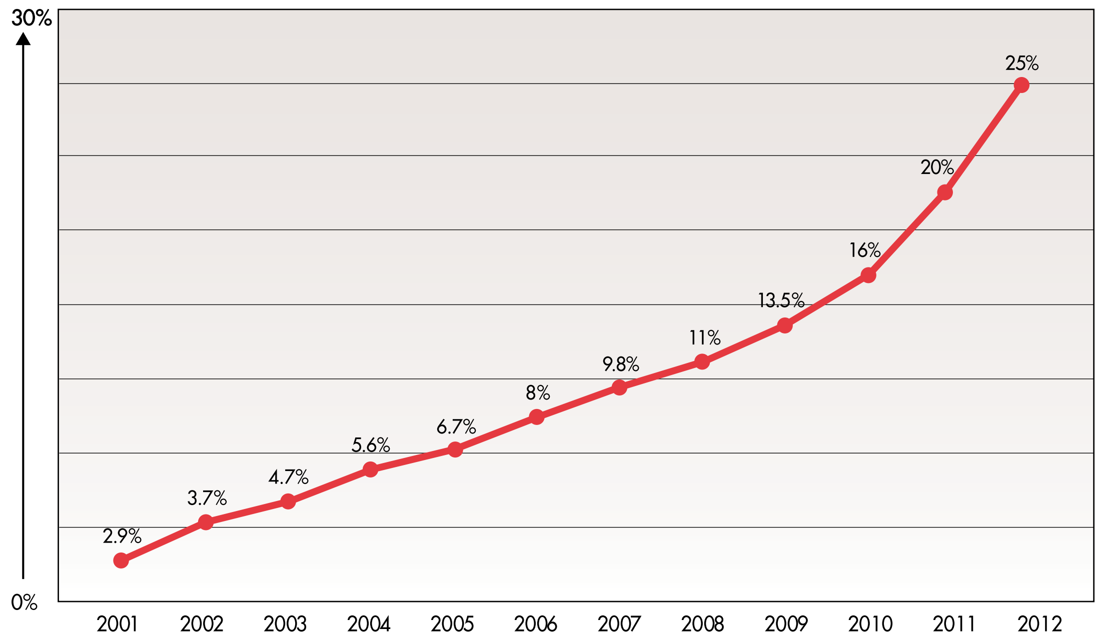
* Projection based on current growth rates and industry data.

The popularity of Cash Balance Plans has soared since 2001, with double-digit annual growth each year of the decade and an increase of more than 600% in 12 years.

What's behind the remarkable growth in Cash Balance Plans?

- **Rising taxes:** Rising federal, state and local tax rates have motivated many business owners to maximize tax-deferred retirement savings and take advantage of tax deductions for contributions to employee retirement accounts.
- **Hybrid appeal:** These "hybrid" plans combine the high contribution limits of a traditional defined benefit plan with the flexibility and portability of a 401(k) plan. They also avoid the common risk factors and runaway costs involved in traditional defined benefit plans.
- **Legal clarity and broader options for plan sponsors:** The 2006 Pension Protection Act affirmed the legality of Cash Balance Plans and made the plans easier to administer, while the 2010 Cash Balance regulations expanded investment options and minimized many funding issues.
- **Retirement savings crisis:** Media coverage of the Boomer generation's lack of retirement preparedness is prompting older business owners to accelerate savings and maximize qualified plan contributions.
- **Increased awareness of Cash Balance Plans:** As recently as five years ago, many financial professionals were unaware that Cash Balance Plans were an option. After a few years of intensive media coverage, awareness is dramatically higher and growth has continued to accelerate.

Cash Balance Plans
As a Percentage of All Defined Benefit Plans

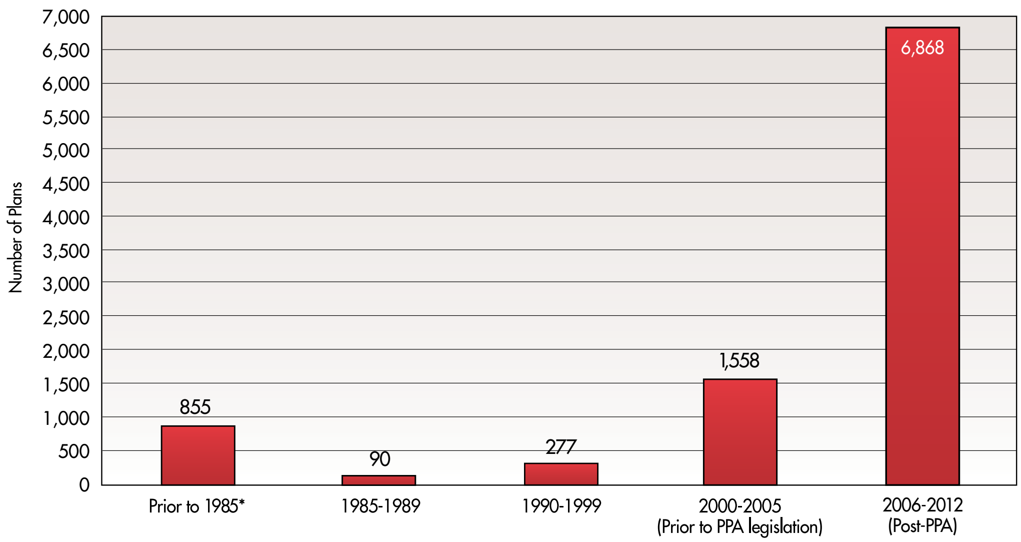


In just over a decade, Cash Balance Plans have increased from less than 3% to 25% of all defined benefit plans. Traditional defined benefit plans have been steadily declining since the mid-1980s, due to a complex array of risk issues, runaway costs, and major changes in workforce demographics. Some larger 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 rapidly 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 for employees 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 in which 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 more than tripled 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. Thanks to this legislative shift, Cash Balance Plans became a popular and viable choice for many small business owners. Today, these plans are making a significant 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 even more appealing to employers. The new regulations also generated widespread media coverage and greater national awareness of the high contribution limits, tax advantages and recruitment/retention power of adding a Cash Balance Plan. Revisions and final versions of these regulations are expected in fall 2014, and will likely increase the popularity of these plans.

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Cash Balance Plans by Size: Participants

Participants	Number of Plans	Percent of Nation's Total
Over 10,000	240	2.5%
1,000 to 10,000	526	5.4%
100 to 999	530	5.5%
25 to 99	1,202	12.5%
10 to 24	2,385	24.7%
1 to 9	4,765	49.4%
National Total	**9,648**	

Total participants in Cash Balance Plans nationwide: 12.3 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 25 employees, and 87% 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 generous tax-deferred retirement contributions 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 many employees than a typical 401(k) plan, and allow small business owners to offer a competitive recruitment advantage.

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Cash Balance Plans:
Company Contributions to Employee Retirement Accounts

Plan Type	2008	2009	2010	2011	2012
401(k) only*	3%	2.2%	2.2%	2.4%	2.6%
401(k) combined with a Cash Balance Plan**	6.2%	5.8%	6%	6.2%	6.3%

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

- **6.3% of pay** – average employer contribution to non-owner employees in companies with both Cash Balance and 401(k) plans.
- **2.6% 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 more than double the contribution employees receive at firms without Cash Balance Plans.

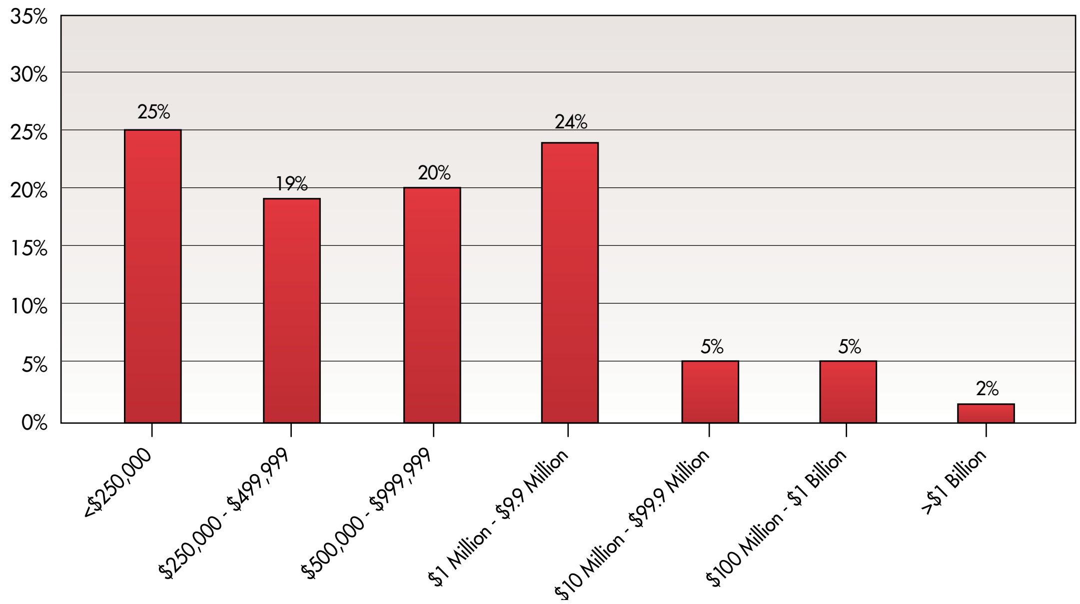
Cash Balance Plans provide other advantages to employees:

- Employees do not have to reduce their take-home pay in order to receive an employer contribution, since Cash Balance contributions (sometimes also 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.
- Plan assets are pooled and typically invested by the plan sponsor using a conservative benchmark, so retirement savings are protected from market fluctuations.
- Portability: When an employee leaves or retires, they have the choice of an annuity option or a lump sum that can be rolled over into an IRA.

*Source for data on employer contributions to 401(k) plans, 2008-2012: Plan Sponsor Council of America (PSCA), *56th Annual Survey of Profit Sharing and 401(k) Plans.*

** Source for combination plans: analysis of Kravitz clients' contributions to employee retirement accounts.

Cash Balance Plans
by Asset Size



Total assets in all Cash Balance Plans nationwide:
$858 Billion in 9,648 plans
Annual contributions for 2012: $31.2 Billion

Cash Balance assets increased from $724B in 2011 to $858B in 2012. More than 70% 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. (See page 12 for more details.)

Highlights: steady, stable growth

- Compared with 2011, a greater percentage of plans have assets between $1M–$10M.
- The median asset size of a Cash Balance Plan is $610,832; the average is $89 million.
- 36% of Cash Balance Plans have assets over $1 million.
- Cash Balance accounts increase each year in two ways: through an employer contribution (a flat amount or a percentage of pay) and through an interest credit. Both are specified in the plan document.

Largest Cash Balance Plans by Asset Size

Top 10 Plans Overall	
1. IBM	$54.9B
2. AT&T	$45.2B
3. Boeing	$28.1B
4. Alcatel-Lucent	$19.2B
5. United Technologies	$17.3B
6. FedEx	$17.0B
7. 3M	$16.1B
8. Northrop Grumman	$15.1B
9. Honeywell International	$14.4B
10. Citigroup	$13.5B

Top 10 Medical Group Plans	
1. Sutter Health	$3.1B
2. Massachusetts General Hospital	$2.5B
3. Intermountain Healthcare	$2.3B
4. University of Pittsburgh Medical Center	$1.2B
5. The Cleveland Clinic Foundation	$1.2B
6. North Shore University Hospital	$1.2B
7. Brigham and Women's Hospital	$1.1B
8. Board of Trustees for Hospital Employees	$890.4M
9. Rush University Medical Center	$866.5M
10. Saint Barnabas Corp.	$837.6M

Top 10 Law Firm Plans	
1. Sidley Austin	$597.1M
2. Skadden, Arps, Slate, Meagher & Flom	$297.9M
3. Morgan, Lewis & Bockius	$248.3M
4. Latham & Watkins	$224.3M
5. Hogan Lovells	$176.6M
6. Jones Day	$156.7M
7. O'Melveny & Myers	$155.5M
8. Mayer Brown and Platt	$148.5M
9. Covington & Burling	$145.2M
10. Gibson, Dunn & Crutcher	$144.5M

Cash Balance Plans play a strategic role in retirement and benefits planning for many large firms

While the dramatic growth in new Cash Balance Plans has been driven mainly by small to mid-size businesses, these tax-efficient plans are also offered by many leading national law firms and medical groups. Select Fortune 100 companies maintain large Cash Balance Plans, some of which were converted from older traditional defined benefit plans (see page 3 for more details). For many large firms, Cash Balance Plans are a key tool for recruiting and retaining talented employees in a highly competitive labor market.

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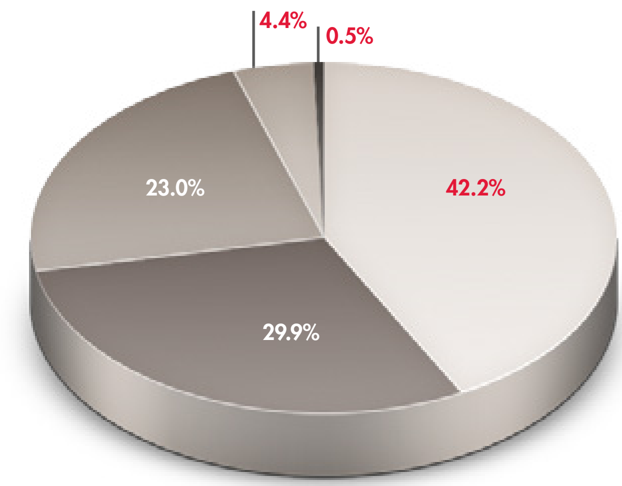
Interest Crediting Rates Chosen by Cash Balance Plan Sponsors



Interest Crediting Rate	Percentage*
Fixed Rate of Return	42.2%
30-Year Treasury Rate	29.9%
30-Year Treasury Rate with a Floor	23.0%
Actual Rate of Return	4.4%
Equity-Based Rate	0.5%
	100.0%

'Actual Rate of Return' Now an Increasingly Popular Choice

All Cash Balance plan participants receive an annual interest credit on their account balances, based on the specific **Interest Crediting Rate (ICR)** written into the plan document. The IRS allows a number of ICR options, and plan sponsors seek to balance actuarial issues and investment challenges when choosing this interest rate.

Prior to the new Cash Balance regulations published in 2010, an estimated 95% of Cash Balance plans used the yield on the 30-year Treasury bond, which averaged 4 to 5% over the past decade. Based on the 2010 regulations, the IRS allowed many more options. Fixed rates have become the dominant choice, while Actual Rate of return is a very popular option for larger plans – 30% of Kravitz Cash Balance plans with more than 100 participants now use Actual Rate of Return.

Actual Rate of Return: this option allows plan sponsors to set the ICR to equal what the plan investments actually earn in the market (the "Actual Rate of Return"), rather than trying to target a specific interest rate every year. The employer's investment risk is reduced considerably, and participants are protected by various investment rules, including preservation of capital.

The industry has provided the IRS with extensive feedback on the 2010 regulations, and we are anticipating new IRS guidance by fall 2014. We anticipate that Actual Rate of Return plans will become even more popular.

* Based on Interest Crediting Rate (ICR) selections by 500 Kravitz Cash Balance clients.

Cash Balance Plans:
Regional Concentration

Rank	State	Number of Plans	Percent of Nation's Total	Percent Annual Increase*
1	CA	1,175	12%	25%
2	NY	1,042	11%	24%
3	OH	683	7%	19%
4	IL	667	7%	17%
5	NJ	581	6%	15%
6	TX	564	6%	28%
7	FL	468	5%	26%
8	PA	431	5%	19%
9	MI	388	4%	24%
10	MA	234	2%	19%
National Total		**9,648**		

*Increase in total number of plans between 2011-2012, the most recent year for which complete IRS Form 5500 data is available.

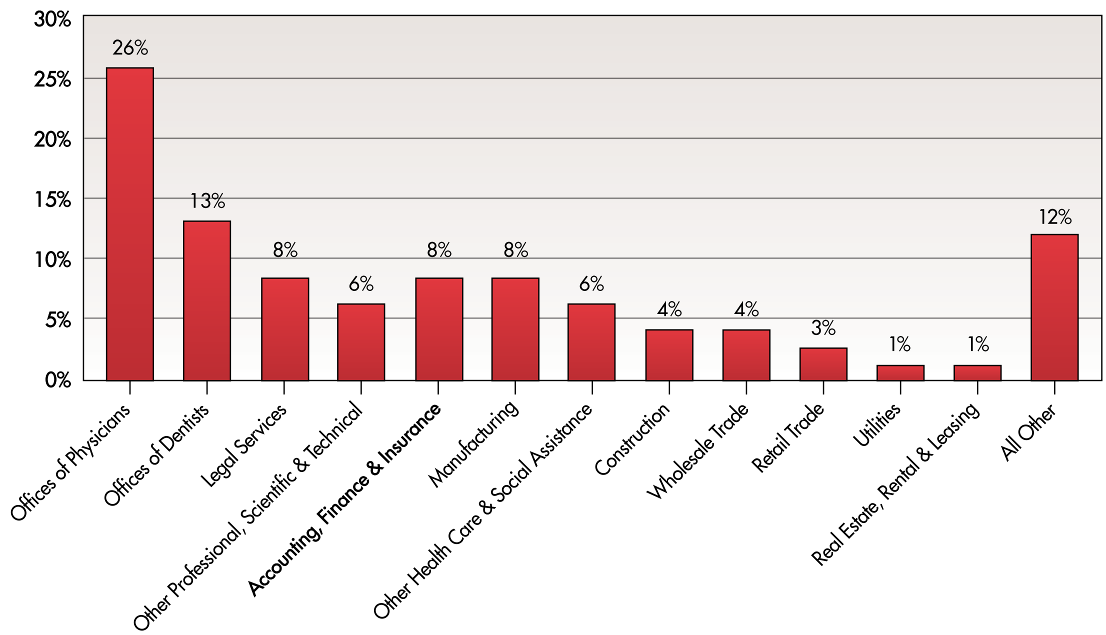
California and New York have lead the way in the Cash Balance sector for the last several years, and that trend continues. As of 2012, they account for 2,217 plans, or 23% of the national total. Along with California and New York, the fastest regional growth in new plans has been in Texas, Florida, and Michigan.

Since new Cash Balance Plans are most frequently adopted by successful, profitable small to mid-size businesses, their growth rates are a good indicator of the regional health of small business.

Other Regional Highlights:

- The Top 10 states remain the same as the previous year, with each state showing double digit growth in total plans from 2011 to 2012.
- Minnesota, Maryland, and Virginia are closing in on the Top 10 with just over 200 plans each.
- Of the Top 10 states, Texas had the greatest increase in total plans (28%) from the previous year.
- States with high concentrations of medical speciality groups and thriving small business environments typically show the highest annual growth in new Cash Balance Plans.

Cash Balance Plans
by Business Type

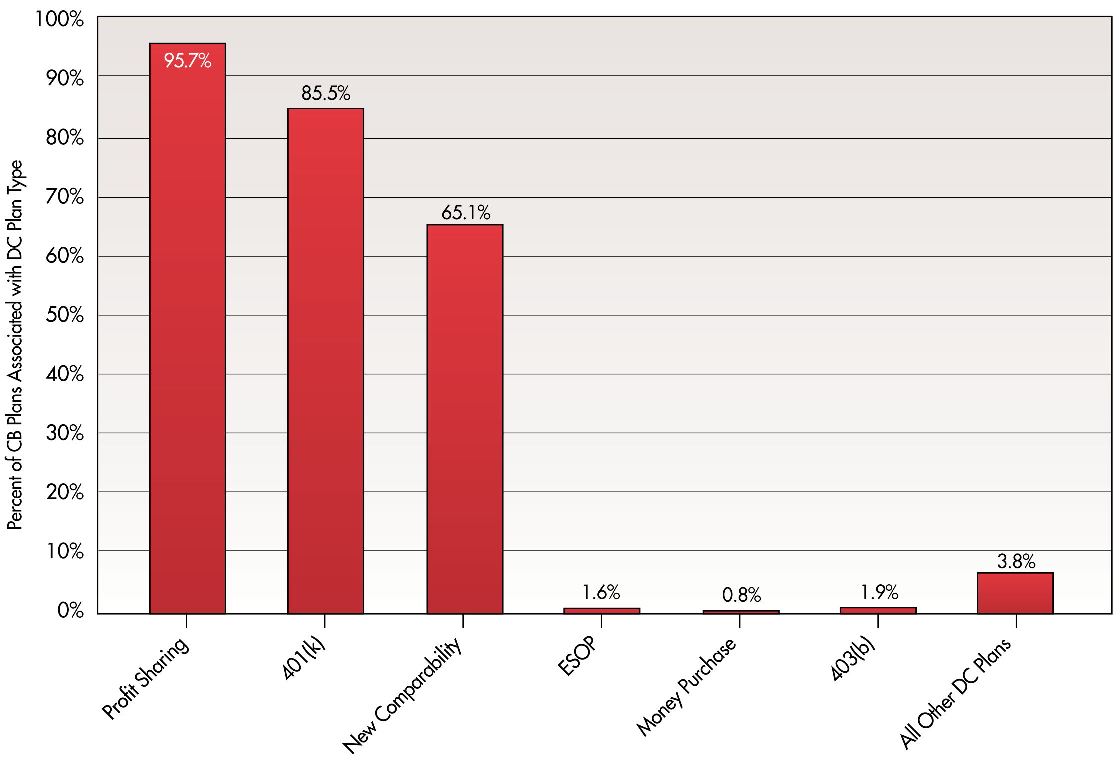


America's healthcare, technical, legal and financial sectors continue to lead the way in adopting Cash Balance Plans. These plans are an excellent fit for the retirement needs of professional services firms, because of their flexibility for multi-partner firms and high age-weighted contribution limits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

Cash Balance Plan adoption across diverse business sectors:

- Manufacturing firms now account for 8% of all Cash Balance Plans, a promising sign for the economy since owners need fairly predictable profit levels to meet the plan's financial commitments.
- Medical and dental groups account for 39% 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 (PPACA).
- With many CPA and financial advisory organizations educating clients about Cash Balance Plans, we expect even greater diversification of business types adding these plans.
- The "Other" category (12% of all Cash Balance Plans) increases every year, and includes everything from funeral homes to resort hotels, from tanning salons to auto detailers.

Defined Contribution Plans
Associated with Cash Balance Plans



Plan combinations allow business owners to optimize tax efficiency and maximize retirement savings

- Very few firms have a stand-alone Cash Balance Plan; today 96% 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 6.3% of pay in companies with both Cash Balance and 401(k) plans, compared with 2.6% 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, including more than 500 Cash Balance plans.

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 750 financial advisors and retirement professionals have enrolled, earning certification as Cash Balance Consultants. In 2010, Kravitz published a book, *Beyond the 401(k)*, an industry best-seller on the topic of Cash Balance Plans as a business growth strategy.

Learn more at www.CashBalanceDesign.com.

For more information regarding Cash Balance Plans,
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