Cash balance plans, the darlings of small professional firms

By Editor Test *Mon, Jul 23, 2012*

“IRS regulations released in October 2010 added flexibility for plan sponsors, so we expect this growth rate to continue accelerating,” said Dan Kravitz, whose eponymous firm designs and administers cash balance retirement plans.

There’s been a 21% increase in new plan inception and an 18% increase in assets in cash balance retirement plans, according to the 2012 National Cash Balance Research Report from Kravitz, the designer, administrator and manager of corporate retirement plans.

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There were 7,064 cash balance plans active in 2010 (the most recent year for which IRS reporting data is available), up from 1,337 in 2001, representing 810% growth in less than a decade. There are now 11.1 million participants in cash balance plans nationally, with $713 billion in total plan assets.

Also known as ‘hybrids,’ cash balance plans provide a guaranteed cash balance benefit at retirement rather than a lifetime annuity or lump sum benefit, as defined benefit plans do. Like a 401(k) plan, however, cash balance plans are portable.

“A cash balance plan can allow for much higher contribution amounts,” according to a fact sheet from Summit Retirement Plan Services. “Annual participant contributions to a 401(k) plan are limited to no more than $49,000 ($54,500 if age 50 or over). Cash balance plans on the other hand have no contribution limitations and are only limited by the cost of a maximum projected benefit at retirement… permitted by the Congress, currently $195,000 per year at age 62.”

The 2006 Pension Protection Act clarified IRS approval of cash balance plans, removing uncertainty over their legal status and making it easier to establish and administer them. Between 2006 and 2010, almost 4,400 cash balance plans were created, compared with 1,684 between 2000 and 2005.

More than half of cash balance plans exist at medical, dental, legal and other professional offices, almost always in tandem with a profit-sharing plan. Contributions are usually in addition to paychecks, rather than deferred from paychecks, and go into a pooled, low-risk investment fund. Over 70% of the plans are at companies with fewer than 25 employees. The largest cash balance plans have typically been created at corporations that switched to them from defined benefit plans.

The 2012 National Cash Balance Research Report also showed that:

- 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.
- Between 2008 and 2010, there was a 38% increase in new cash balance plans, despite the financial crisis and recession.

- 84% of cash balance plans are in place at firms with fewer than 100 employees.
- California and New York together account for 23% of all cash balance plans nationally, but the fastest growth in new plans has been in Florida, Texas and Michigan.

These and other highlights of the 2012 National Cash Balance Research Report will be discussed in a free Cash Balance Outlook 2012 webinar led by Dan Kravitz on Thursday, August 9.