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Defined Benefit Retirement

Cash balance plans expand the retirement field

Experts cite cash balance growth as reason to adopt DB model

BY CHRIS SILVA

An increasing interest by employers in cash balance plans has service providers and consultants offering new tools to the sponsor market.

John Hancock, a long-time provider of 401(k) plans, announced recently it was wading into the defined benefit space primarily because of increasing interest in cash balance plans from professional-dominated firms and small companies.

Such transitions by various service providers could make it easier on companies by giving them one resource to deal with, rather than two.

"The defined benefit program broadens our retirement plan offering and is a good strategic fit," remarks Ed Eng, senior vice president of product development for John Hancock Retirement Plan Services. "We can now provide our clients with defined benefit plans, 401(k) plans or both, depending on the unique needs of that company."

Employers are looking for ways to maximize retirement contributions for their workers beyond a 401(k) plan, Eng continues.

Candidates typically include: professionals seeking to contribute more than $45,000 to their retirement plan; highly profitable companies of varying sizes; owners who are approaching retirement and are seeking ways to maximize contributions; professional groups, such as physicians, attorneys or certified public accountants; and family and closely-held businesses.

New online tool

This building interest in cash balance models motivated Kravitz, a retirement consultant firm, to launch a Web site dedicated to the plans. The Web site, www.cashbalancedesign.com, is designed to assist advisers, providers and third-party administrators on how cash balance retirement plans work and who the ideal candidates would be to use them.

"We have a lot of clients that are looking to do more, and cash balance plans are a great vehicle to accomplish just that," says Daniel Kravitz, president of the firm. "We figured a Web site would be a great way to communicate how these things work and who could benefit from them."

Kravitz finds the biggest appeal of cash balance plans to be the high contribution limits, which typically go beyond what a traditional 401(k) plan would permit. "Most people are trying to solve some tax issues, and this is a great way to create tax deferral and accelerate tax savings."

PPA fosters interest

The Pension Protection Act of 2006 helped alleviate investment concerns employers had with cash balance plans, clearing the way for auto-enrollment and auto-escalation.

PPA encouraged the Department of Labor to be more specific about the need for qualified default investment alternatives, which can now come in the form of a lifecycle fund, a balanced fund or a professionally managed account.

Says Eng: "The PPA clarified the path for many plan sponsors about defined benefit plans. Our TPA and financial adviser partners were clear that this was a product that our clients wanted."

The law also amends the Employee Retirement Income Security Act to provide a safe harbor for plan fiduciaries investing participant assets in certain types of default investment alternatives.

"The cash balance and hybrid pension plans were really quite risky because of the regulatory uncertainty," says Kevin Wagner, the retirement practice director for Watson Wyatt.

"Now that we have that uncertainty lifted, I think companies have a broader array of defined benefit alternatives available to them."

Wagner notes that large employers are beginning to show trust in cash balance plans.

Those that have recently adopted the plans include MeadWestvaco, Sun Trust Banks, FedEx and Dow Chemical.

Under Dow's plan, which took effect on Jan. 1, 2007, the company will contribute 5% of pay plus interest into pension accounts.

Employees will be able to take the value of their pension account as a lump sum whenever they leave the company. The overall match to its 401(k) plan will remain at 4% of pay. Dow also implemented auto-enrollment and Roth 401(k) features.

"We know that prospective employees want benefits that accumulate throughout their career rather than concentrate on the last years of their careers," says Janet VanAlsten, global benefits director for Dow.

"They also want to be able to take the funds with them if they choose to leave the company. That's exactly the need our new program satisfies and why we're taking this next step in our benefits evolution." —***C.S.***