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Cash Balance Plan Growth Has Increased, Seeing a 15x Boost in 20 Years

Cash Balance plans make up almost 50% of all Defined Benefit plans, demonstrating broad appeal to various market segments.

In the 12th annual edition of the Cash Balance Research Report, our experts at FuturePlan by Ascensus have analyzed the IRS Form 5500 filings for Cash Balance retirement plans (over a 20-year period) along with other data to provide a comprehensive view of this niche market.* The annual growth in new plans, regional trends, plan asset growth, and other statistics are provided as a reference for retirement plan professionals and others interested in learning more about Cash Balance plans.

Highlights

The number of new Cash Balance plans increased 6% from 2019 to 2020, compared with just 3% growth in new 401(k) plans
This confirms two guiding principles. 1) Many small business owners want to accelerate their retirement savings on a tax-advantaged basis; 2) Because of the widespread educational efforts on Cash Balance plans, CPAs and advisors are understanding the many benefits of offering Cash Balance plans as part of their retirement plan strategy.

Cash Balance plans are more than a trillion dollar market
Cash Balance plan assets exceed $1.2 trillion nationwide, including 9.4 million retirement plan participants.

Small businesses continue driving Cash Balance growth
Companies with nine or fewer employees make up over 60% of all Cash Balance plans. Small business owners are drawn to these plans because of their ability to help catch up on delayed retirement savings as well as attract and retain top talent.

California and New York have the most plans overall, with over one fourth of all plans
California and New York account for 27% of all new Cash Balance plans, followed closely by Florida and Texas. California is a regional leader with close to 17% year-over-year growth.

There is increasing diversity of companies adopting Cash Balance plans
The finance and construction industries have seen continued new plan growth over the last two years.

Fixed Rate of Return grows as more small businesses adopt Cash Balance plans
Fixed rates have grown to over 84% of plans using them with FuturePlan during 2021. This growth is due in part to an increase in new plans from small businesses, who traditionally use a fixed rate of return as their Interest Crediting Rate to better control retirement plan contributions.

*Source: Analysis performed by FuturePlan, using 2020 data from IRS Form 5500 filings via the Judy Diamond Associates, Inc. database. Additional data on defined contribution and defined benefit plans comes from the Private Pension Plan Bulletin Abstracts by the U.S. Department of Labor and FuturePlan's own book of business. Some of the analysis in this report compares 2018 (the last year FuturePlan formally reported findings) and 2020, which is the primary year that this report is based on.
2023 Market Insights

The IRS lump sum limit for a Cash Balance plan increased to $3.4 million for 2023

The maximum amount that a small business owner can accumulate in a Cash Balance plan at age 62 is a lump sum balance of $3.4 million (up from $3.1 million during the prior year). This change benefits plan sponsors who may be dealing with a higher cost of living, increased longevity, or who may want to defer more taxes.

More plans sponsors may consider strategic plan terminations

As more plans are maturing and reaching permanency status (e.g. 10+ years), we could see an increase in strategic plan terminations. Some of the reasons include a desire to redesign the plan after significant asset growth, the partners want to transfer the current Cash Balance plan assets to a 401(k) plan or IRA, or the retirement committee seeks to change the interest crediting rate to the Actual Rate of Return, with the goal of reducing investment risk. A final reason may be that the plan sponsor has had significant changes to the business including mergers and acquisitions.

Opportunities presented by higher interest rates

There are various ways in which higher interest rates could affect Cash Balance plans. For instance, rising rates could potentially reduce insurance premiums from the Pension Benefit Guaranty Corporation, which insures private pension plans (similar to how the FDIC insures bank balances). In addition, higher interest rates could lower minimum required contributions. Companies can consult with their plan's actuary if they have any questions about how rising interest rates can impact their own plan.

SECURE 2.0 offers new benefits for small businesses – including affordability and easy administration.

One key benefit is the updated employer start-up tax credit. This credit applies to qualified plans including Cash Balance plans. For employers who have no more than 50 employees and have at least one non-highly compensated employee who is eligible to participate, the maximum credit is 100% of qualified start-up costs, up to $5000.
CASH BALANCE PLANS

Growth 2001 to 2020
Cash Balance plan popularity has increased since 2001, seeing a 15 times boost in 20 years.

Source: Department of Labor (DOL) and *Judy Diamond Associates, Inc.

What’s behind the remarkable growth in Cash Balance plans?

Rising taxes: Rising federal, state, and local tax rates continue to be a driving factor for 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.

Legislative changes 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. IRS Cash Balance regulations in 2010 and 2014 expanded investment options, minimizing many funding issues.

Retirement savings crisis: The COVID-19 pandemic placed a spotlight on the importance of retirement readiness for all generations of savers because many Americans (owners and employees alike) are still not saving enough for retirement. Older business owners, in particular, have the strongest desire to accelerate savings and maximize qualified plan contributions.
Percentage of All Defined Benefit Plans

In the past 20 years, Cash Balance plans have increased from 3% to nearly 50% 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 in terms of showing individual account balances. Some plans even offer participant websites with daily updates.

Consistency and fairness: These plans allow for more consistent contributions to employees as a uniform percentage of compensation regardless of age, 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.
since the pension protection act (ppa) came into effect in 2006, cash balance plans nationwide have seen a 15-fold increase through 2020. the first cash balance plan was established by bank of america in 1985, but the emerging hybrid 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.

2010 irs cash balance regulations: new regulations published in 2010 provided greater clarity and expanded options for interest crediting rates (icr), 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.

2014 final irs cash balance regulations: final regulations issued in september 2014 gave plan sponsors a compliance roadmap and greater investment flexibility, including the option to use fixed rates up to 6% and to include multiple investment options within a single cash balance plan.

2017 tax cuts and jobs act, provision 11011 section 199a: section 199a of the internal revenue code provides many owners of sole proprietorships, partnerships, s corporations, and some trusts and estates a deduction of income from a qualified trade or business with adjusted gross income (agi) that falls below certain thresholds. cash balance plans help owners reduce their agi to obtain this additional 199a tax deduction.

2019 secure act 1.0: the secure act makes it easier for small business owners to set up “401(k) safe-harbor” profit sharing plans, which can be used in tandem with cash balance plans. also, an included provision extended the deadline to the business’ tax filing deadline, allowing small business owners more time to adopt a new plan.

source: judy diamond associates, inc.

*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.
CASH BALANCE PLANS

Participants

Small to mid-size businesses continue to drive the growth of Cash Balance plans, and the highest growth over the past nine years has been in companies with fewer than 25 employees. Over 95% of plans are in place at firms with fewer than 100 employees. Companies with one to nine employees represent 61% of all Cash Balance plans, which is a 3% increase over two years. This shows a higher demand among micro business owners.

The largest plans (those with 10,000 or more participants) typically represent older traditional defined benefit plans that were converted to Cash Balance. These conversions may continue to increase in the next few years as an alternative to terminating financially troubled defined benefit plans.

<table>
<thead>
<tr>
<th>PARTICIPANTS</th>
<th>NUMBER OF PLANS</th>
<th>PERCENT OF NATION’S TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 10,000</td>
<td>201</td>
<td>0.9%</td>
</tr>
<tr>
<td>1,000 to 10,000</td>
<td>412</td>
<td>1.8%</td>
</tr>
<tr>
<td>100 to 999</td>
<td>507</td>
<td>2.2%</td>
</tr>
<tr>
<td>25 to 99</td>
<td>2,340</td>
<td>10.3%</td>
</tr>
<tr>
<td>10 to 24</td>
<td>5,431</td>
<td>24.0%</td>
</tr>
<tr>
<td>1 to 9</td>
<td>13,766</td>
<td>60.8%</td>
</tr>
<tr>
<td>National Total</td>
<td>22,657</td>
<td></td>
</tr>
</tbody>
</table>

Total participants in Cash Balance plans nationwide: 9,396,136


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 retirement savings: Age-weighted contribution limits allow older owners to potentially accelerate 20 years of savings into 10. Owners can typically double or triple the pre-tax deferrals they were able to make in a defined contribution plan.

Attracting and retaining talented employees in a tight labor market: Defined benefit plans such as Cash Balance are more appealing to many key employees than typical 401(k) plans alone due to the additional amounts that can be saved for retirement, giving small business owners a competitive recruitment advantage.
Plan Asset Size

Two thirds of plans have assets under $1,000,000. However, there may be an increase in the proportion of plans with less than $500,000 in assets, if more micro businesses adopt new plans over the coming years.

For most firms, a Cash Balance plan is an “add-on” to an existing 401(k) profit sharing plan that already has significant assets.

Total assets in all Cash Balance plans nationwide: **$1.2T in 22,657 plans**

Annual contributions for 2020: **$24.3B**

2020 Highlights: steady, stable growth

- The median asset size of a Cash Balance plan is $739,978; the average is $53.1 million.
- 33.1% 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. See page 11 for a discussion of Interest Crediting Rates.
- The high percentage of plans with assets under $250K reflects the large number of new start-up plans at small firms, typically with fewer than 10 participants.

Cash Balance plans are a more than trillion dollar market.
LARGEST CASH BALANCE PLANS

Plan Asset Size

<table>
<thead>
<tr>
<th>TOP 10 PLANS OVERALL</th>
<th>TOP 10 MEDICAL PLANS</th>
<th>TOP 10 LAW FIRM PLANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>$56.8B</td>
<td>Sidley Austin LLP</td>
</tr>
<tr>
<td>Warner Media</td>
<td>$55.1B</td>
<td>Paul Hastings LLP</td>
</tr>
<tr>
<td>Boeing</td>
<td>$34.6B</td>
<td>Kirkland &amp; Ellis LLP</td>
</tr>
<tr>
<td>Raytheon Technologies</td>
<td>$33.5B</td>
<td>Jones Day</td>
</tr>
<tr>
<td>UPS</td>
<td>$29.3B</td>
<td>Latham &amp; Watkins LLP</td>
</tr>
<tr>
<td>FedEx</td>
<td>$28.9B</td>
<td>Gibson Dunn &amp; Crutcher LLP</td>
</tr>
<tr>
<td>Bank of America</td>
<td>$24.7B</td>
<td>DLA Piper LLP</td>
</tr>
<tr>
<td>Northrop Grumman</td>
<td>$21.9B</td>
<td>Akin Gump Strauss Hauer &amp; Feld LLP</td>
</tr>
<tr>
<td>Pacific Gas and Electric</td>
<td>$21.4B</td>
<td>Omelveny &amp; Myers LLP</td>
</tr>
<tr>
<td>JPMorgan Chase</td>
<td>$21.1B</td>
<td>Quinn Emanuel Urquhart &amp; Sullivan LLP</td>
</tr>
</tbody>
</table>


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 and mid-size businesses, these tax-efficient plans are also offered by many leading national law firms, hospitals, and medical groups. For many large firms, Cash Balance plans are a key tool for recruiting and retaining talented employees in a highly competitive labor market.

Cash Balance plans play a strategic role in benefits planning for many Fortune 100 companies.
CASH BALANCE PLANS

Interest Crediting Rate Trends
Fixed rates have become more favored with micro business owners.

*Source: 2021 FuturePlan book of business

Fixed Rate of Return increases in popularity for the Interest Crediting Rate

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.

Before the IRS Cash Balance regulations were published in 2010, an estimated 95% of Cash Balance plans used the yield on the 30-year Treasury bond. This rate averaged 4 to 5% for most of the decade prior to the current low interest rate era, when the yield has often fallen below 3%. The 2010 regulations changed the game, allowing many more ICR options and greater flexibility for plan sponsors. From 2019 to 2021, fixed rates have become more favored with over 84% of plans up from 75%. This was driven by a fixed rate allowing for more predictable growth of liabilities.

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.

Fixed Rate of Return grows as more small businesses adopt Cash Balance plans.
**Interest Crediting Rate Trends: Large Plans**

Large plan sponsors are moving away from the 30-year Treasury rate to either a fixed rate or Actual Rate of Return.

*Source: 2021 FuturePlan book of business

### Minimizing risks and maximizing investment options makes Actual Rate of Return appealing for larger plans

We have continued to see large plan sponsors moving away from the 30-year Treasury rate as an ICR and choosing either a fixed rate or Actual Rate of Return, usually with a ceiling between 4% and 6% to manage volatility. The fixed rate of return is used by over 38% of large plans, compared with 26% from 2 years ago, which suggests that business owners of larger companies are shifting to a more predictable investment strategy. Using Actual Rate of Return reduces the employer’s investment risk considerably, and participants are protected by various investment rules, including preservation of capital.

The final IRS Cash Balance regulations released in September 2014 have made Actual Rate of Return even more compelling, since plan sponsors can now offer multiple investment options within a single plan, tailored to suit different retirement goals and needs.

### Advantages of an Investment Choice Cash Balance plan:

- Meets diverse participant needs and goals
- Incorporates a range of investment strategies within a single plan
- Enhances flexibility for growing firms with many partners/shareholders
- Improves ability to attract and retain top talent
## Regional Concentration

<table>
<thead>
<tr>
<th>RANK</th>
<th>STATE</th>
<th>NUMBER OF PLANS</th>
<th>PERCENT OF NATION’S TOTAL</th>
<th>PERCENT CHANGE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CA</td>
<td>3,925</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2</td>
<td>NY</td>
<td>2,247</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>3</td>
<td>FL</td>
<td>1,506</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>4</td>
<td>TX</td>
<td>1,315</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>5</td>
<td>NJ</td>
<td>1,214</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>6</td>
<td>IL</td>
<td>1,180</td>
<td>5%</td>
<td>-1%</td>
</tr>
<tr>
<td>7</td>
<td>OH</td>
<td>1,108</td>
<td>5%</td>
<td>-3%</td>
</tr>
<tr>
<td>8</td>
<td>MI</td>
<td>723</td>
<td>3%</td>
<td>-8%</td>
</tr>
<tr>
<td>9</td>
<td>PA</td>
<td>701</td>
<td>3%</td>
<td>-9%</td>
</tr>
<tr>
<td>10</td>
<td>GA</td>
<td>632</td>
<td>3%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td><strong>Top 10 Total</strong></td>
<td><strong>14,551</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


*Percent change in total number of plans between 2018 (the last year FuturePlan formally reported findings) and 2020, the primary year which this report is based on.

For almost two decades, California and New York have ranked as the top two states based on the total number of plans. Both regions account for 6,172 plans, making up 27% of the total in the U.S. California is also notable because it has the fastest regional growth for new plans – 17% increase over the last two years.

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

**Other regional highlights:**
- Cash Balance plans are active in all 50 states and are now represented in Puerto Rico, Guam, and the U.S. Virgin Islands.
- Florida has shown considerable regional growth, retaining its third-place spot on our chart.

California and New York have the most plans overall, with over one fourth of all plans.
CASH BALANCE PLANS

Business Type by Industry

U.S.-based firms within the healthcare, technical, legal, and financial industries 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.

Increasing diversity of businesses adopting Cash Balance plans:

- Construction companies account for 7.3% of all Cash Balance plans, which is over a 20% increase from two years ago.
- Medical and dental groups account for nearly 38% of all Cash Balance plans nationally, and we expect to see continued growth in the healthcare sector, affecting trends in the overall U.S. economy.
- With many CPA and financial advisory organizations educating clients about Cash Balance plans, we expect even greater diversification of business types adding these plans.

About FuturePlan

From prospecting for new clients to retaining and householding, we align with every step of your sales cycle. We provide creative plan design options, customized proposals, and practice management tools along the way.

We’re a category of one

We’re the only TPA offering a full spectrum of creative plan design, strategic consulting, IRS and DOL regulatory compliance services, actuarial practice, and end-to-end plan administration for every plan, with complete independence and flexibility. We’re a technologically advanced national organization with the heart and soul of a hands-on business partner.

About the Cash Balance Center of Excellence

Since the early 1990s, FuturePlan’s Cash Balance Center of Excellence’s core team has been designing and administering these plans successfully. And in this space, experience matters. Serving more than 4,500 Cash Balance plans, and hundreds of law firms as clients, FuturePlan brings deep expertise and options to the design table.

For more information, visit cashbalancedesign.com or contact FuturePlan’s Cash Balance Center of Excellence:

📞 866-929-2525
🌐 futureplan.com

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