

The Advisor Playbook: A cash balance sales guide

A cash balance plan sales guide

- ▶ [Overview](#)
- ▶ [Table of contents](#)

Overview

This guide will help you understand how cash balance plans work and to assist you to strengthen existing client relationships and prospect for new ones.

Did you know that cash balance plans are:

- ▶ Tremendous asset gathering tool, revenue growth through investment management fees (i.e., Merrill Lynch Investment Advisory Program)
- ▶ Competitive differentiators, supporting business owner’s accelerated retirement savings needs
- ▶ Capable of helping you make inroads to deepen client relationships
- ▶ Qualified to be rolled over, when participants terminate employment, into an IRA or a company sponsored retirement plan

Table of contents

- ▶ [Cash Balance plan overview and background.....](#) Page 3–6
- ▶ [Who is a cash balance plan right for?.....](#) Page 7–9
- ▶ [Bringing on a new cash balance client.....](#) Page 10–11
- ▶ [Resources](#) Page 12–13

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|-----------------------------|--------------------------------|-----------------------|
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|-----------------------------|--------------------------------|-----------------------|

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Cash balance plan overview and background

▶ What is a cash balance plan?

How a cash balance defined benefit plan can work for your client

Our cash balance capabilities

How are cash balance plans funded?

What is a cash balance plan?

A cash balance plan is a type of defined benefit (DB) pension plan that is employer funded and grows by annual employer contributions plus interest. All contributions are tax-deductible expenses to the business owner. Cash balance plans are qualified tax deferred plans under ERISA.

- ▶ Business owner must maintain plan for a minimum of 5 years.
- ▶ Upon separation of service, cash balance plan participants may take their distribution as a lump-sum or annuity payout.
- ▶ A business owner can sponsor a cash balance plan in addition to a traditional 401(k) plan.
- ▶ Employers make annual contributions to their company sponsored cash balance plan and the business takes the tax deduction.
- ▶ Plan sponsors have flexibility when it comes to who participates in the cash balance plan; minimum participation level is the lesser of at least 40% of eligible employees or fifty total employees.

Cash balance plans are often referred to as:

1. Hybrid plans because they are DB pension plans that have some characteristics of defined contribution (DC) plans, where each participant's benefit is stated in terms of an account balance.
2. The benefit given by such plans is based on a specific percentage and/or a fixed dollar amount of current salary with a guaranteed rate of interest.
3. The employer makes a required annual contribution and adjusts for any difference between the guaranteed return, identified in the plan document and the actual return on plan investments.

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▶ **How a cash balance defined benefit plan can work for your client**

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This hypothetical illustration shows how complementing a 401(k)/profit-sharing plan with a cash balance plan may help the Plan Sponsor realize significant tax deductions and accelerate retirement accumulations for key employees.^{1,2}

| Name | Age | Annual salary | 401(k) | Profit sharing | Cash balance | Total contribution | Tax savings | |
|--|-----|------------------|-----------------|-----------------|------------------|--------------------|------------------|------------------|
| 2 owners | | | | | | | | |
| Owner 1 | 68 | \$345,000 | \$30,500 | \$46,000 | \$379,215 | 109.92% | \$455,715 | \$182,286 |
| Owner 2 | 58 | \$65,000 | \$30,500 | \$3,900 | \$90,035 | 138.52% | \$124,435 | \$49,774 |
| Subtotals | | \$410,000 | \$61,000 | \$49,900 | \$469,250 | | \$580,150 | \$232,060 |
| 4 staff | | | | | | | | |
| 7.5% of pay | | | | | | | | |
| Employee 1 | 40 | \$51,000 | | \$3,825 | \$700 | 1.37% | \$4,525 | |
| Employee 2 | 33 | \$41,000 | | \$3,075 | \$700 | 1.71% | \$3,775 | |
| Employee 3 | 26 | \$34,000 | | \$2,550 | \$700 | 2.06% | \$3,250 | |
| Employee 4 | 43 | \$21,000 | | \$1,575 | \$700 | 3.33% | \$2,275 | |
| Subtotals | | \$147,000 | \$0 | \$11,025 | \$2800 | | \$13,825 | \$5,530 |
| Grand totals | | \$557,000 | \$61,000 | \$60,925 | \$472,050 | | \$593,975 | \$237,590 |
| Percent of contribution to owners | | | | | | 97.7% | | |



By adding a cash balance plan, this hypothetical firm enjoys:

- ▶ Higher tax deductions — an additional current year tax deduction of \$458,261 (in addition to deductions from 401(k)/profit-sharing plan).
- ▶ Accelerated accumulations — depending on their age and cash flow, partners have an opportunity to accumulate significantly more for retirement each year than with the 401(k)/profit-sharing plan alone.
- ▶ Maximized benefits — partners receive 97.7% of the total benefit amount, while employees receive an employer allocation. The plan must meet the 110% funding threshold as defined by the IRC for a full lump sum payout to certain restricted, highly compensated employees who are among the top 25 highest-paid employees.

¹ FuturePlan, Retirement Plan Limits 2024. Based on IRS 2024 Contribution Limits and the hypothetical illustration shown above. Individual contribution limits may vary based on personal financial circumstances.

² This hypothetical illustration represents a sample plan design using various actuarial assumptions and plan provisions combined with a 401(k)/profit-sharing plan, and is intended for illustrative purposes only. This illustration also assumes that this plan would be a PBGC covered plan.

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► **Our cash balance capabilities**

How are cash balance plans funded?

Our cash balance capabilities

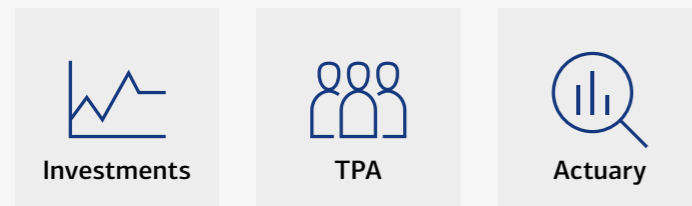
Packaged solution



Consistent and integrated offering

OR

Open architecture



Prospect currently works with a Third Party Administrator (TPA) or wants to select on their own

Help small business owners and drive increased capture

- ▶ Full-service offering with all necessary service providers working in unison to deliver a packaged cash balance offering; eliminating the client provider search burden (works well for clients without an existing TPA).
- ▶ Bank of America and Merrill and FuturePlan by Ascensus TPA partnership agreement with distinct roles and responsibilities.
- ▶ Clients execute distinct service provider contracts: Merrill RCMA/IAP agreements and FuturePlan for recordkeeping and actuarial services.
- ▶ The Bank of America, Merrill and FuturePlan partnership starts from new lead through onboarding creating a seamless client experience.
- ▶ CIO investment models are typically balanced strategies — like Merrill’s conservative, moderately conservative or moderate investor profiles.

Clients utilize Merrill for Investments/RCMA Account, but need to find and hire their own TPA Recordkeeper and an Actuary

- ▶ TPA open architecture allows clients to use their existing actuary and recordkeeper for their cash balance needs (ideal for clients who have an existing TPA).
- ▶ The responsibility of coordinating all needed services (investment manager, actuary and recordkeeper) to start a cash balance plan is on the small business owner.
- ▶ Cash balance marketing collateral has a broad focus to support TPA open architecture.
- ▶ Clients may execute up to three distinct service provider contracts: Merrill investment management, recordkeeping and actuarial services agreements (with three different providers).

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▶ **How are cash balance plans funded?**

How are cash balance plans funded?

Small business owners fund cash balance plans with employer contributions and an annual interest credit. Plan sponsors may select one of the options listed below:

- ▶ Actual rate of return.
- ▶ Safe harbor options.
 - Fixed rates: The IRS allows plan sponsors to choose a fixed rate of up to 6% as the ICR (most commonly used).
 - 30-year Treasury rate: Accounts annually receive a credit equal to the yield on the 30-year U.S. Treasury bond.
 - Combined rates: An annual floor of up to 5% with any safe harbor rate.

Plan sponsor investment strategy considerations:

- ▶ Determine risk appetite: Lower-risk, balanced strategies—like Merrill’s Conservative, Moderately Conservative or Moderate investor profiles—are typically chosen by cash balance plan sponsors to limit volatility and moderate losses.
- ▶ Interest crediting rate: Ideally, the strategy will achieve an investment return, net of all expenses, that comes close to the interest crediting rate (in the plan document) over time. How desirable it is to minimize year-to-year return variance from the crediting rate and the implications of a return shortfall versus an excess will depend on which cash balance plan advantages a client would like to emphasize—higher tax deductions or savings accumulation—and will influence the choice of risk profile.
- ▶ Monitor investments: Plan fiduciary should review plan investments quarterly or at least semi-annually to ensure the allocations are on target with the original investment strategy.



Merrill CIO model portfolios that can be selected:

- ▶ CIO total portfolios in the lower risk profiles—conservative, moderately conservative and moderate—would be potential choices for most plans to review with the plan fiduciary.
- ▶ Options include more passive ETF implementations and more actively oriented portfolios—all of which follow CIO guidance, tactics and risk management, with extensive collateral resources to support client conversations.

Useful links:

- ▶ [CIO Model Portfolios Overview](#)
- ▶ [CIO Model Portfolio Catalog](#)
- ▶ [CIO Portfolios Client Brochure](#)
- ▶ [CIO Model Portfolio FAQs](#)

Who is a cash balance plan right for?

▶ **What business is right to start a cash balance plan?**

Prospecting tips

▶ **Who should you sell a cash balance plan to?**

Review your existing book of business

Identifying the right businesses and clients for a cash balance plan

As stated earlier, having a solid understanding of what a cash balance plan is can help you comprehensively grow your retirement business. While companies with the traits bulleted below make for great prospects, there are tools you can leverage to find even more helpful information.



Why should your client consider a cash balance plan?

Adding a cash balance plan to a small business that already has an existing 401(k) can help owners maximize their business' tax deductions. It also allows for accelerated retirement savings for owners who started their 401(k) savings later in life due to other business priorities.



Cash balance plans generally work best for:

- ✓ CPA and law firms, medical groups, professional, real estate and construction firms.
- ✓ Older owners who need to squeeze 20 years of retirement saving into 10 years.
- ✓ Principals seeking a tax deduction of more than \$76,500 or making more than \$300,000 per year in 2024.
- ✓ Firms who maximize contribution limits in their current DC plan.
- ✓ Highly profitable companies of all types and sizes that have predictable cash flow.
- ✓ Owners who are already contributing 3–4% to employees in the 401(k) profit sharing plan and willing to provide a minimum contribution between 5–8% of pay for their staff.
- ✓ Successful family businesses and closely held businesses.
- ✓ Sole proprietors.

Who is a cash balance plan right for?

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► Prospecting tips

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Prospecting tips

You know the company traits to look for that make a good fit to start a cash balance plan. Here are some tips on how to find these companies:³

1. Use a database to search

Databases can be an excellent tool for finding prospects because you can set specific search criteria based on characteristics that make a company a good fit for cash balance plans.

A number of databases take advantage of company retirement plan information that becomes public record when companies file their annual Form 5500s with the Department of Labor.

Two examples are:

- RiXtrema (formerly Larkspur) (www.rixtrema.com)
- FreeERISA (www.freeerisa.benefitspro.com)

2. Look for indicators of a strong cash balance plan

Some examples are:

- One or more highly compensated employees or key employees are at the 401(k) profit sharing maximum (\$76,500 in 2024).
- At least 10% of the employees are key employees (owners and executives) and are at the maximum compensation limit (\$345,000 in 2024).
- Company is contributing 3%-5% of pay or more to employees.
- The owners and executives are, on average, older than the non-highly compensated employees.



Sample database sorts:

- Company is currently contributing 3%-5% of pay or more to a DC plan.
- Use the business codes to target specific industries. Use the U.S. Census Bureau website to search for North American Industry Classification System codes that make a good fit for cash balance.
 - 541110 for law firms
 - 621111 for medical groups
 - 541211 for accounting (CPAs)
 - 541310 for architects
 - 236115 for construction
- Sort by size of plan assets and employee participation levels to find companies with strong retirement plans.
- The databases provide you with the names and phone numbers of decision makers you need to contact.

³ Beyond the 401(k), Kravitz, Guidroz & Sansone.

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Who should you sell a cash balance plan to?

▶ **Review your existing book of business**

Review your existing book of business and check out your existing 401(k) clients' accounts

Leverage recordkeeper's online reporting for each plan to access:

- ▶ The plan's average account balance.
- ▶ Plan's participant adoption rate (even though it may be high, say 100%, but if the staff isn't putting in enough salary deferrals to get the full match it will impact the highly compensated employee's ability to maximize their retirement savings).

Ask the plan sponsor these questions:

- ▶ Is your 401(k) plan having non-discrimination testing issues?
 - If yes, this impacts how much the highly compensated employees can contribute.
- ▶ Is your business getting its full tax credit for the company match?
 - If no, the plan sponsor may want to consider redesigning their 401(k) and add a cash balance which helps the owners gain the ability to accelerate their retirement savings.

Leverage your retirement Workplace Benefits Specialist (WBS):

- ▶ For questions regarding a potential cash balance plan sales opportunity.
- ▶ To request a custom plan design illustration for your prospect from FuturePlan.
- ▶ When you need assistance finding your local FuturePlan Regional Vice Presidents (<https://assets.futureplan.com/futureplan-assets/FuturePlan-National-Sales-Map.pdf>).
- ▶ To join you on local roadshows with your clients/prospective clients.

Contact FuturePlan's Regional Vice Presidents:

- ▶ For detailed questions surrounding the cash balance sales process once you have identified a new lead.
- ▶ To request a custom plan design illustration for your prospect.
- ▶ To schedule prospective client conference call to review plan design options and selling points.
- ▶ When you have questions surrounding any step in the sales process.

Bringing on a new cash balance client

► Step-by-step instructions to bring on a new cash balance client

RCMA Investment Only account opening instructions for defined benefit cash balance plans

Step-by-step instructions to bring on a new cash balance client

1. The Merrill Financial Advisor identifies a cash balance plan lead.
2. In partnership with the prospect, Merrill helps complete the plan illustration form and submits it to FuturePlan.
3. FuturePlan creates a plan illustration and schedules a call to review plan design options with the Merrill Financial Advisor.
4. The Merrill Financial Advisor presents and discusses plan design with the prospect (Optional: Contact your FuturePlan Regional Vice President to review plan design options and selling points).
5. If the prospect has objections to the plan design presented by the Merrill Financial Advisor, schedule a call with the prospect and FuturePlan sales to help counter objections and support the win.
6. (Optional step) FuturePlan redesigns the cash balance plan based on prospect feedback.
7. (Optional step) The Merrill Financial Advisor schedules a second call with FuturePlan sales and prospect to refine plan design.
8. The prospect decides to move forward with a cash balance plan.
9. The Merrill Financial Advisor conducts an implementation call with client to review:
 - a. Investment strategy options.
 - b. Required agreements (RCMA Financial Service Agreement, Letter of Authorization to provide duplicate statement to a third party).
 - c. MLOne Investment Advisory Program Agreement.
 - d. FuturePlan Recordkeeping Service Agreement.
 - e. Final plan document.
10. Proceed to account opening instructions on the next page.

For questions, please reach out to your [Workplace Benefits Specialist](#) or contact the Workplace Benefits Sales Desk at 1.866.SALES.RG (1.866.725.3774).

Bringing on a new cash balance client

Step-by-step instructions to bring on a new cash balance client

▶ RCMA Investment Only account opening instructions for defined benefit cash balance plans

RCMA Investment Only account opening instructions for defined benefit cash balance plans

RCMA account opening instructions:

1. The account opening process for the RCMA Investment Only is streamlined using the Enterprise Account Opening (EAO) business profile form. General account opening instructions may be found in this link: [EAO RCMA Walkthrough](#).
2. To open the RCMA Investment Only account, use the [Retirement Cash Management Account Financial Service Documents Book](#).
3. For DB cash balance plans, a RCMA trustee directed account must be opened. The application is part of the retirement cash management account financial services document, use document code 2347.
4. The plan type selected for the account should be DB (there is not a DB cash balance selection in EAO or on the RCMA application).
5. When opening a new account, it is important that the account be associated to a company and plan profile via IKH.
 - a. If the account is for a new company, the creation of a company profile and plan profile via IKH will be required.
 - b. If the account is for a new plan and a company profile already exists for a company, the creation of a new plan profile via IKH will also be required.
 - c. Step by step instructions for the creation of a company and plan profile can be found in the [IKH instructional handbook](#).
6. In EAO, the plan attributes selected will determine the product type, and these selections will drive the KD attributes specific to RCMA Investment Only. They will automatically generate an account number that is in the appropriate account suffix (05):
 - a. Please select “Investment Only” in the plan product type drop down menu.
 - b. Next, select “Other TPA” as the plan recordkeeper.
 - c. The market segment selection is based on the assets that will be in the plan.
 - d. The GES code will appear once a market segment is selected.
7. For questions, please contact the Merrill service network client account services department at 866.657.3784.
8. Effective January 2, 2024 FINRA 2231 went into effect which requires you to obtain a Letter of Authorization from your client to set up a duplicate address for statements.

To streamline the annual actuarial trust review and certification process, the Trustee **must** add FuturePlan **or** the actuary they selected, if not partnering with FuturePlan, as a duplicate statement recipient. FuturePlan's address is as follows:

FuturePlan
PO Box 219073
Attn: Trust Accounting Department
Kansas City, MO 64121

Important: If using FuturePlan bundled offering for the defined benefit cash balance plan, this is a RCMA Investment Only solution and is not part of the Advisor Alliance Ascensus program. If speaking to MLSN, only refer to RCMA Investment Only to ensure any support provided will be for opening an RCMA Investment Only account.

Resources

▶ Phone support and coverage information

Cash balance coach program

Phone support and coverage information

Merrill contacts

Retirement Services Internal Sales Desk

- 1.866.SALES.RG (1.866.725.3774)

Workplace Benefits Specialist (WBS) coverage

- [Institutional retirement WBS coverage list](#)
- [Workplace benefit specialist coverage maps](#)

Portfolio Consulting Group and Investment Advisory Specialists coverage map

- [PCG and IAP Specialists coverage map](#)

FuturePlan

FuturePlan coverage map:

<https://assets.futureplan.com/futureplan-assets/FuturePlan-National-Sales-Map.pdf>

Service support

- Current clients: 800.235.9649
- National sales desk: 866.929.2525

Resources

Phone support and coverage information

▶ **Cash balance coach program**

Cash balance coach program

Access the members-only website:

<https://www.cashbalancedesign.com/cash-balance-coach/members-section/>

Review educational materials

- Cash balance 101: <https://assets.futureplan.com/futureplan-assets/FPCashBalance.pdf>
- Client data/census file template: <https://assets.futureplan.com/futureplan-assets/FuturePlanCensusRequest2024.xlsx>

Additional sales resources materials

- [Cash Balance DB Prospecting Letter](#)
- [Cash Balance Plan Sponsor Fact Sheet](#)
- [Cash Balance Defined Benefit FA Sales Guide](#)
- Cash Balance Tax Advantages Flyer: <https://assets.futureplan.com/futureplan-assets/FPTaxAdvantagesFlyerClient.pdf>
- Cash Balance Plan Limits Flyer: <https://assets.futureplan.com/futureplan-assets/FPContributionLimitsTable.pdf>
- Cash Balance Ideal Candidates Flyer: <https://assets.futureplan.com/futureplan-assets/FPIdealCandidateCard.pdf>
- Top 10 Questions Advisors Ask Flyer: <https://assets.futureplan.com/futureplan-assets/CB-Top-10-Questions-Cash-Balance-Advisors.pdf>
- Ideal candidate cards: <https://assets.futureplan.com/futureplan-assets/FPIdealCandidateCard.pdf>
- Calculator: <https://www.cashbalancedesign.com/resources/maximum-contribution-calculator/>