Cash Balance Plans in DB/Win

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Items to be covered today...

- Review of frequently asked Cash Balance (CB) plan questions
- Setting up a new or existing CB plan in the DB/WIN system
- Running beginning of year (BOY) or end of year (EOY) valuations
- Non-discrimination testing when combined with a 401(k) plan
- CB plan reports and report groups
What is a Cash Balance (CB) Plan?

- A CB plan is a hybrid Defined Benefit (DB) plan with **benefits expressed as a hypothetical account balance** instead of a monthly benefit as in a traditional DB plan.

- Although a CB plan is a DB plan, it has the look and feel of a DC plan. Some key features of a CB plan are listed below.
  - Accounts are hypothetical because there are no investments directly related to them. Instead, they grow by the following additions, which are defined by the terms of the plan, on each allocation date (usually annual) until the benefits are paid.

- Pay Credits or hypothetical contributions defined like contributions in a DC plan.

- Interest Credits are defined as either a fixed rate or an indexed rate that varies on each allocation date. The rules limit the interest credit rates and, under current guidance, the rate should not exceed the third funding segment rate for the applicable plan year.

- Typically, the CB plan is combined with a DC plan, and the two plans are tested as a single plan for non-discrimination.
Review CB Plan FAQ’s

Why would the client want a CB plan?

- CB plan benefits are easier to communicate and more easily understood by plan participants.
- Participant statements illustrate balances like a profit sharing plan so they can be combined with the statement for a DC plan.
- CB plan benefits are not subject to 417(e) minimum payout subsidies that apply to traditional DB plans.
- Allocation of plan benefits between participants in a partnership are more easily understood and communicated.

Why would the client want a CB plan combined with a DC plan?

- Higher contributions in the CB plan for key employees
- Lower contributions and Top-Heavy minimums for non-key employees in the DC plan
- Increased deduction limits
Review CB Plan FAQ’s

How does the DC plan help satisfy non-discrimination testing when combined with a CB plan?

- Cash Balance plans are NOT safe harbor plans and therefore must be General Tested for non-discrimination.
- DC contributions are used to help satisfy the Gateway test.
- DC contributions for younger non-key employees support higher CB plan contributions for older key employees when tested on a benefits basis.
- 3% Safe Harbor DC allocations eliminate 401k deferral testing.

Setting up a CB plan in DB/WIN

How to setup a new or takeover plan

- Start new plans at the Plan Level
- Select a Plan Sponsor (or create new Plan Sponsor)
- Pick a Cash Balance Default Plan
- Creating and saving your own default plans
Setting up a CB plan in DB/WIN

PE/Win has 5 levels. Start at the plan level to set up a plan.

- **Plan Level** for general plan provisions and plan sponsor (company) information. Plans belong to the plan sponsor.
- **Source Level** for the benefit and contribution formulas. Eligibility and vesting schedules are specified for each source.
- **Investment Level** each plan must have at least one investment. Benefit/accounts are maintained based on the transactions within each investment.
- **Employee Level** for the employees who belong to the company. Employees benefit in the plans of the plan sponsor.
- **Transaction Level** for calculating the interest credits (gain/loss) for each investment.

Creating a new CB plan

At the Plan Level there are two different ways to start the process for setting up a plan.
Creating a new CB plan

Select a Plan Sponsor. If the Plan Sponsor does not exist, create a new Plan Sponsor. Note that there should be only one record for each plan sponsor. Do not setup a new plan sponsor if it already exists.

Creating a new CB plan

Select a default cash balance plan.

Start typing the default plan name and/or double click from the list below.
Creating a CB default plan

You can create a default cash balance plan from an existing plan by first making a copy of the plan ...

... and then change the Plan Status to Default in the copy of the plan. The new plan will then be assigned to the default sponsor, and it will be available as a default plan.
Setting up a CB plan in DB/WIN

Review Plan Level specifications for CB Plans
- Default plan will automatically establish required settings for cash balance plans.
- Enter plan identification specifics
- Limitations and minimum benefits
- Assumptions
  - Actuarial equivalence
  - Interest rate for funding projections
  - Normal Form of Payment (Life Annuity)
  - Optional Forms (100% Lump Sum)

New Plan Setup

Enter the plan specifics in the available fields. Note that there is no need to have years in the Plan Ident.
Check the box to Calculate Actual Pay Credit if you are doing participant statements or compliance testing. Otherwise, leave the box unchecked to do beginning of year valuation work.

For BOY valuation dates, check this box to calculate the actual pay credits based on current year pay. If unchecked, the projected pay credit for funding will be calculated based on prior year pay.
415 Contribution Limits – Because the system will use DC functionality in a cash balance plan, it will apply these limits even though they are not applicable to pay credits. The system will set these values at high levels so that they have no affect (see image on previous slide).

Minimum Benefits for Cash Balance Plans
- Traditional DB plan minimum benefits like Top-Heavy minimums can be greater than the CB account, so they should be avoided in a CB plan. Check the boxes on the previous slide to avoid these minimum benefits.
- Top-Heavy minimums should be set in the DC plan.
Plan Level
Actuarial Equivalence Assumptions

- As in any DB plan, the accrued benefit is a monthly annuity payable at the retirement age in the normal form of payment.
- In a CB plan, the accrued benefit is expressed as a hypothetical account balance that is converted to a monthly annuity benefit using the assumptions specified for actuarial equivalence on the Pre-Ret and Post Ret tabs.
- Specify pre-retirement and post-retirement interest rate and mortality assumptions. If using interest only for the pre-retirement, then select the blank value at the top of the list menu for the pre-retirement mortality assumption.
- Select the Normal Form of Payment from the list. Usually, this value is Life Annuity.
Plan Level
Plans | Assumptions | Pre-Ret (PL-3-1)

The hypothetical account balances are projected to the assumed retirement age using the interest rate for projections.

Enter the rate to be used for projections. This rate will be used for periods beyond the current plan year. The actual rate specified at the transaction level will be used through the end of the current year.

Note that the Interest Credit rate is subject to restrictions. See following slides.

Specify the assumed interest credit rate for projecting the hypothetical account for PPA funding. Enter the appropriate rate in the field Cash Bal Int Rate for Proj.

The assumed rate will be used for periods after the end of the current plan year. The actual Interest Credit rate, specified at the Transaction level, will be used through the end of the current year.

Note that the Interest Credit rate is subject to restrictions. See following slides.
Plan Level
Plans | Assumptions | Pre-Ret (PL-3-1)

- Allowable Interest Credits – Final 2010 Regs.
  - Corporate yield: 3rd segment rate
    - Funding segment rate (2-year average), or
    - 417(e) segment rate (one-month average)
  - Treasury yields + margins (Rev Rul 96-8)
  - Cost-of-living indices + up to 300 bps
  - Final regs: 1st and 2nd segment rates
    - Funding or 417(e)

Plan Level
Plans | Assumptions | Pre-Ret (PL-3-1)

- Allowable Interest Credits – Fixed Interest Rate
  - Final regs: reserved
  - Proposed regs:
    - 5.0% allowed
    - Less than 5% allowed
    - Greater than 5% impermissible (Preamble)
Plan Level
Plans | Assumptions | Pre-Ret (PL-3-1)

- Allowable Interest Credits – Minimum Fixed Interest Rate
  - Bond Based – Minimum of X Segment
    - 4% is maximum fixed interest rate

Many more options – See Final and Proposed Regulations

Plan Level
Plans | Assumptions | Post-Ret (PL-3-2)

Probability of Lump Sum Option is specified at the plan level.

Projected benefits and values are discounted using the funding rates.
Plan Level
Plans | Assumptions | Post-Ret (PL-3-2)

The default for Cash balance plans is 100% probability of Lump Sum. Note that the sum of all probabilities must total 100%.

- **415 Limits**
- **Accrual rules**
- **Non-Discrimination testing**
Setting up a CB plan (Source Level)

- Why do we need two sources?
  - CB Source (maintaining hypothetical account balances)
  - DB Source (converted annuity benefits and values)

- Coding the pay credit formula
  - CB Source (allocation formula)
  - Eligibility Requirements
  - Vesting Schedule

Setting up a CB plan (Investment Level)

- Investment Level (2 Investments)
  - Cash Balance / @CashBal for the CB source accounts
  - Pooled / @pool for the DB source benefits

- Navigating the employee level in a CB plan
  - Account Activity
  - Testing Data
  - 415 Limits
Setting up a CB plan in DB/WIN

- Setting up the interest credits at the transaction level
  - G/L Allocation for Cash Balance (CB Source)
  - Create new for takeover plans with beginning balances
  - Do not create for new plans without beginning balances

- Calculate Plan and Reviewing the Results
  - Employee Level Review
  - Cash Balance Reports

Setting up a CB plan in DB/WIN

- Overview of Testing Permissively Aggregated Plans as a Single Plan
  - Employee Level Review
  - Discrimination Testing Reports
Source Level Overview

- Navigating the Sources (2 Sources)
  - CB Source for Pay Credits and Account Balances
  - DB Source for annuity benefits and present values

- Pay Credits (Allocation Formula)
  - Graded (Class) Allocation Formula

- Vesting Schedules
  - Three Year Cliff Vesting

Source Level
Sources | Type/Name | Detail (SRC-1-1)

Source Type = Cash Balance for CB Source
Navigating the Sources

- Double click on a source to navigate to that source or...

- Use the navigation arrows to move back and forth between sources or...

- Click on the binoculars...

- ...and then double click on the source, or...

- ...use Ctrl N (next) or Ctrl B (back) to go between sources.
Source Level
Sources | Allocation | Contribution (SRC-4-1)

Pay Credits are defined through the Allocation Method

Example
Graded Pay Credit Formula
Example Graded Pay Credit Formula

Level 1

200% of Comp for Class A Pay Credit

Example Graded Pay Credit Formula

Level 2

$10,000 Class B Pay Credit
Example
Graded Pay Credit Formula

Level 3 2% of Comp for Class C Pay Credit

Example
Graded Pay Credit Formula

Adding or deleting levels is easy.
### Source Level
Sources | Vesting | Regular / Top-Heavy (SRC-3-1)

**Check vesting schedule for DB Source.**

<table>
<thead>
<tr>
<th>Source</th>
<th>Vesting</th>
<th>Defined Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB</td>
<td>100%</td>
<td>100% in 3 Years</td>
</tr>
</tbody>
</table>

**Check vesting schedule for CB Source.**

<table>
<thead>
<tr>
<th>Source</th>
<th>Vesting</th>
<th>Cash Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CB</td>
<td>100%</td>
<td>100% in 3 Years</td>
</tr>
</tbody>
</table>
Source Level
Sources | Vesting | Regular / Top-Heavy (SRC-3-1)

CB plans have limited vesting options

Investment Level
Investments | Plan Investments | Plan Investments (INV-1-1)

- **Cash Balance / @CashBal**
  - CB Source Contrib % = 100%

- **Pooled / @pool**
  - DB Source Contrib % = 100%
Investment Level Overview

Why do we need two investments?

- The DB source in any DB plan, including CB plans, needs a cash investment called "Pooled / @pool" with a contribution percentage of 100%.

- In addition, the CB source in a CB plan needs a separate cash investment called "Cash Bal / @CashBal" with a contribution percentage of 100% in order to maintain the hypothetical accounts. Interest credits for this investment are defined at the Transaction Level.

Employee Level

Employees | Accounts | Account Balance (EE-4-1)

Hypothetical Account Activity

- Beginning balances can be manually entered or overridden the first year. Ending balances will carry forward to beginning balances after updates to next year.

- Move the scroll bar to the right to see more values.
### Employee Level

**Employees | Accounts | Account Balance (EE-4-1)**

#### Pay Credits are calculated from the formula in the CB Source

Pay credits will be limited based on 415 lump sum limits at the end of the plan year. They can also be manually overridden for unique situations.

<table>
<thead>
<tr>
<th>Source</th>
<th>Investment</th>
<th>Acc %</th>
<th>Beg Bal $</th>
<th>GL $</th>
<th>Cap $</th>
<th>Fed In $</th>
<th>Trn In</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired Benefit</td>
<td>Pooled</td>
<td>100.00</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Balance</td>
<td>340,059.00</td>
<td></td>
<td>17,082.95</td>
<td></td>
<td>178,380.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Balance</td>
<td>340,059.00</td>
<td></td>
<td>17,082.95</td>
<td></td>
<td>178,380.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>340,059.00</td>
<td></td>
<td>17,082.95</td>
<td></td>
<td>178,380.95</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Interest Credits are calculated from Gain/Loss in Transactions

Interest credits are calculated based on the parameters specified at the Transaction level. They, too, can be manually overridden for unique situations.
Employee Level
Employees | Testing | 410b / 401a4 (EE-5-2)

If the DC plan is not in PE/Win, you can still do the combined plan testing by entering or importing the DC testing data for each employee.

Transaction Level
Transactions | Allocations | Allocation (TR-1-1)

Interest Credits are entered as a current year Gain/Loss
Transaction Level

Transactions | Allocations | Allocation (TR-1-1)

Enter the actual interest credit rate for the current plan year.

Employee Level Review

Employees | Sources | Detail (EE-3-1)

Detail tab will show monthly benefits for the Defined Benefit source.
Employee Level Review

Defined Benefit source, detail tab shows converted monthly benefits by projecting balances to retirement using the projection and actuarial equivalence rates specified at the plan level.
- Accrued benefit at BOY is based on the balance at BOY.
- Accrued benefit at EOY is based on balance at EOY

Eligibility dates for the source are also shown on the detail tab. If the employee is not yet eligible, then the projected date of eligibility is populated.

The vesting service and percentage is shown at the bottom as well as the projected date 100% vested.

Detail tab will show Pay Credits for the Cash Balance Source.
Employee Level Review

Employees | Sources | Detail (EE-3-1)

- Cash Balance source, detail tab shows the Pay Credits allocated to the participant for the current year.
- Eligibility dates for the source are also shown on the detail tab. They should be consistent with the eligibility dates for the DB source.
- The vesting service and percentage is shown at the bottom as well as the projected date 100% vested. They should also be consistent with the eligibility dates for the DB source.

Employee Level Review

Employees | Sources | DB (EE-3-5)

DB tab will show present values under the DB Source.
Employee Level Review
Employees | Sources | DB (EE-3-5)

- DB tab shows the present values of the projected balances to retirement using the projection rate and then discounted to the valuation date using the funding segment rates.
- Values will, generally, be different than the account balance amounts because of the differences between the projection rate and the funding segment rates.
- Optional Forms button will show more of the calculation detail for the lump sum option and each other optional form of payment.

Employee Level Review
Employees | Sources | DB (EE-3-5)

Calculation detail for each optional form of payment.

<table>
<thead>
<tr>
<th>Optional Benefit Form</th>
<th>Yes Cell (Port 1)</th>
<th>CBCA Allowed</th>
<th>Probability</th>
<th>Benefit</th>
<th>Funding Target</th>
<th>Fund Tag?</th>
<th>Beneficiary Tag?</th>
<th>N/A</th>
<th>Tag N/A?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Named Form</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1,925.01</td>
<td>36.54%</td>
<td>0</td>
<td>36.54%</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Lump Sum</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>224.496.08</td>
<td>78.211</td>
<td>1</td>
<td>224.496.08</td>
<td>78.211</td>
<td>224.147.00</td>
</tr>
<tr>
<td>Life Annually</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1,925.01</td>
<td>68.521</td>
<td>0</td>
<td>1,925.01</td>
<td>68.521</td>
<td>68.521</td>
</tr>
<tr>
<td>Life Annually-Capped</td>
<td>0</td>
<td>11</td>
<td>0</td>
<td>1,925.01</td>
<td>68.521</td>
<td>0</td>
<td>1,925.01</td>
<td>68.521</td>
<td>68.521</td>
</tr>
<tr>
<td>Joint and 100% Survivor</td>
<td>0</td>
<td>50</td>
<td>0</td>
<td>1,925.01</td>
<td>68.521</td>
<td>0</td>
<td>1,925.01</td>
<td>68.521</td>
<td>68.521</td>
</tr>
<tr>
<td>Joint and 75% Survivor</td>
<td>0</td>
<td>75</td>
<td>0</td>
<td>1,925.01</td>
<td>68.521</td>
<td>0</td>
<td>1,925.01</td>
<td>68.521</td>
<td>68.521</td>
</tr>
<tr>
<td>Joint and 50% Survivor</td>
<td>0</td>
<td>100</td>
<td>0</td>
<td>1,925.01</td>
<td>68.521</td>
<td>0</td>
<td>1,925.01</td>
<td>68.521</td>
<td>68.521</td>
</tr>
</tbody>
</table>
Employee Level Review
Employees | Sources | DB (EE-3-5)

More calculation detail for each optional form of payment.
Non-Discrimination Testing
Combining the CB plan with a DC plan for 401(a)(4)

There are two ways to do combined DB/DC testing in the system.

- Master Plan – This method is the best option when you have both the DC and the CB plan in the system. It involves setting up a master plan and identifying the plans to associate with the master plan.

- Screen 38 Method – This method is used when the DC plan is not in the system. You simply enter or import the DC plan contributions for each employee into their record in the CB plan. The reference to screen 38 is from the old DOS system where you would enter or import the DC plan contributions and account balances for the testing.
Non-Discrimination Testing
Combining the CB plan with a DC plan for 401(a)(4)

Screen 38 Method – With this method, you enter or import the DC plan contributions and balances for each employee into their record in the CB plan on the 410b / 401a4 tab (EE-5-2).
Non-Discrimination Testing
Combining the CB plan with a DC plan for 401(a)(4)

Either approach will enable the combined plan testing provided you have the box checked to Test Permissively Aggregated Plans as a Single Plan at the Plan Level tab PL-3-3.

Non-Discrimination Testing
Combining the CB plan with a DC plan for 401(a)(4)

You can also Log MVAR Calc to view the detail of the Most Valuable Accrual Rate. This will give you the option to view the log after the calculations are finished.
Non-Discrimination Testing
Combining the CB plan with a DC plan for 401(a)(4)

Viewing the Log MVAR Calc...

Cash Balance Plan Reports
Cash Balance reports under Defined Benefit Reports.
## Cash Balance Plan Reports

### Account Balance Statement by Investment

**Account Balance Statement by Investment**

**Sample Cash Balance Pension Plan**

For the plan year 1/1/2009 through 12/31/2009

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Interest Credit</th>
<th>Pay Credit</th>
<th>Distribution</th>
<th>Adjustments</th>
<th>Ending Balance</th>
<th>Vested Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hse 1</td>
<td>Cash Balance</td>
<td>140,000.00</td>
<td>8,000.00</td>
<td>140,000.00</td>
<td>0.00</td>
<td>208,000.00</td>
<td>208,000.00</td>
</tr>
<tr>
<td>Hse 2</td>
<td>Cash Balance</td>
<td>82,000.00</td>
<td>5,340.00</td>
<td>80,000.00</td>
<td>0.00</td>
<td>147,340.00</td>
<td>147,340.00</td>
</tr>
</tbody>
</table>

### Account Balance Statement by Source

**Account Balance Statement by Source**

**Sample Cash Balance Pension Plan**

For the plan year 1/1/2009 through 12/31/2009

<table>
<thead>
<tr>
<th></th>
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<td>80,000.00</td>
<td>0.00</td>
<td>147,340.00</td>
<td>147,340.00</td>
</tr>
</tbody>
</table>
Cash Balance Plan Reports

Participant Cash Balance Account Statement (ver 1)

Cbal Cash Balance Pension Plan

Participant Account Statement

Hce 1

For the plan year 1/1/2009 through 12/31/2009

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Beginning Balance</th>
<th>Pay Credit</th>
<th>Interest Credit</th>
<th>Distribution</th>
<th>Adjustment</th>
<th>Ending Balance</th>
<th>Year Per</th>
</tr>
</thead>
</table>
Cash Balance:
Cash Balance: 0.00 140,000.00 0.00 0.00 0.00 140,000.00
Total: $140,000.00
Total Vested Account Balance: $140,000.00
Total Vested Amount: $140,000.00

Cash Balance Plan Reports

Participant Cash Balance Account Statement (ver 2)

Cbal Cash Balance Pension Plan

Participant Account Statement

Hce 1

For the plan year 1/1/2009 through 12/31/2009

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Beginning Balance</th>
<th>Pay Credit</th>
<th>Interest Credit</th>
<th>Distribution</th>
<th>Adjustment</th>
<th>Ending Balance</th>
<th>Year Per</th>
</tr>
</thead>
</table>
Cash Balance:
Cash Balance: 0.00 140,000.00 0.00 0.00 0.00 140,000.00
Total: $140,000.00
Total Vested Account Balance: $140,000.00
Total Vested Amount: $140,000.00

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Some Do’s and Don’ts

- Valuation Date can be either beginning or end of year.
- Best to do end of year for testing with DC plan and participant statements.
- Does not work yet for...
  - Sole-Proprietor or Partnerships
  - Plans with Top-Heavy minimum benefits that are greater than hypothetical account balances

Resources

DATAIR Customer Support Team
(630) 325-2600
E-mail: support@datair.com
web: http://www.datair.com

Release Notes
Forums
Webinars
PE/Win Training DVD