

**THE WALL STREET JOURNAL.**

WSJ.com

RETIREMENT PLANNING | OCTOBER 27, 2010

## Cash-Balance Pensions Stand to Gain Favor

By JILIAN MINCER

Cash-balance pension plans, where employees stand to get a lump-sum payment at retirement based on a system of "credits," are poised to gain traction in the coming year.

The cash-balance plans, a type of defined-benefit program governed by the Employee Retirement Income Security Act, differ significantly from traditional pensions. Instead of a promised monthly payment based on past salary, years of service and age, an employee's account is credited each year with a "pay credit"—which may be a percentage of pay or a flat dollar amount—and an "interest credit." Those credits build until retirement, when the employee receives the total amount as a lump sum or converts it into an annuity.

<b>Retirement Savings Plans</b>		
A look at the characteristics of cash-balance pension plans and traditional 401(k) retirement plans:		
	<b>Cash-balance pension plans</b>	<b>401(k) retirement plans</b>
<b>Annual contribution limits</b>	Possibility of as much as \$50,000 to \$150,000, depending on age and income levels	Maximum of \$49,000 in total employee/employer contributions
<b>Employer contributions</b>	Current-year benefits (pay and credits) plus unfunded liabilities	Varies based on participant's salary deferrals and employer contributions
<b>Employee contributions</b>	None	Voluntary portion of pretax pay
<b>Distribution</b>	Employers offer annuity option; employees may select lump-sum payment	Employee controls
<b>Guarantee</b>	Pension Benefit Guaranty Corp. insures	Not insured

Source: Principal Financial Group

The first cash-balance plans were sidelined by age-discrimination lawsuits. The Pension Protection Act of 2006 clarified the rules, but adoption of cash-balance plans stalled until there was more clarity for employers. Now, new regulations released last week by the Treasury Department are designed to clarify how the plans are managed and may lead to broader adoption.

Although they aren't all final, the regulations couldn't have come at a better time for small businesses and professional firms, whose top earners are looking at ways to effectively save more, especially pretax.

Financial professionals expect demand to come from large companies that want to convert a traditional pension into a

cash-balance plan and from professional firms—especially law firms and medical practices—that are eager to save more for retirement pretax.

Maximum annual contributions to cash-balance plans are greater than what is allowable through a defined-contribution plan like a 401(k). With a cash-balance plan, it is possible to obtain contributions of an additional \$50,000 to \$150,000 per year depending on the age and income levels of the plan participants, said Barry Young, a consulting actuary at Principal Financial Group Inc.

By comparison, the maximum in 2010 for a 401(k) plan is \$49,000 (for the employer and employee), and the 2010 defined-benefit plan maximum is \$195,000. The 2011 limits haven't yet been announced.

Some advisers think that some employers that now use a 401(k) plan may decide to replace it with a cash-balance plan. It would be more economical for the company and could help workers better prepare for retirement by ensuring that they have a minimum for retirement rather than dependent on fluctuations in the market.

Indeed, financial advisers say a pension—even if not a traditional plan—could be good for workers, many of whom don't save enough in their 401(k) plans. The pension provides guaranteed income and is managed professionally.

Some companies had held back on creating plans, waiting for the more-detailed regulation, said Alan Glickstein, senior retirement consultant at Towers Watson. "During 2011, we expect to see a lot of activity," he said.

Until retirement, the money in a cash-balance pension account is hypothetical and mixed with that of other employees. The new regulations should clarify funding requirements and decrease some of the risk and volatility employers have experienced in recent years.

Among other things, the rules are expected to lower the interest credit rate that companies use when determining interest credits on cash balance accounts. That could lower both employee benefits and employer contributions absent other changes to the plan. Therefore, the rules are expected to decrease the amount that some existing cash-balance plans need to contribute, which could make them more attractive to the companies.

The proposed regulations would broaden the choices employers use for the cash-balance accounts, said Principal Financial's Mr. Young. "It now allows plans to use more than a handful of fixed-income rates," he said, which will "result in less volatility of funded status."

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