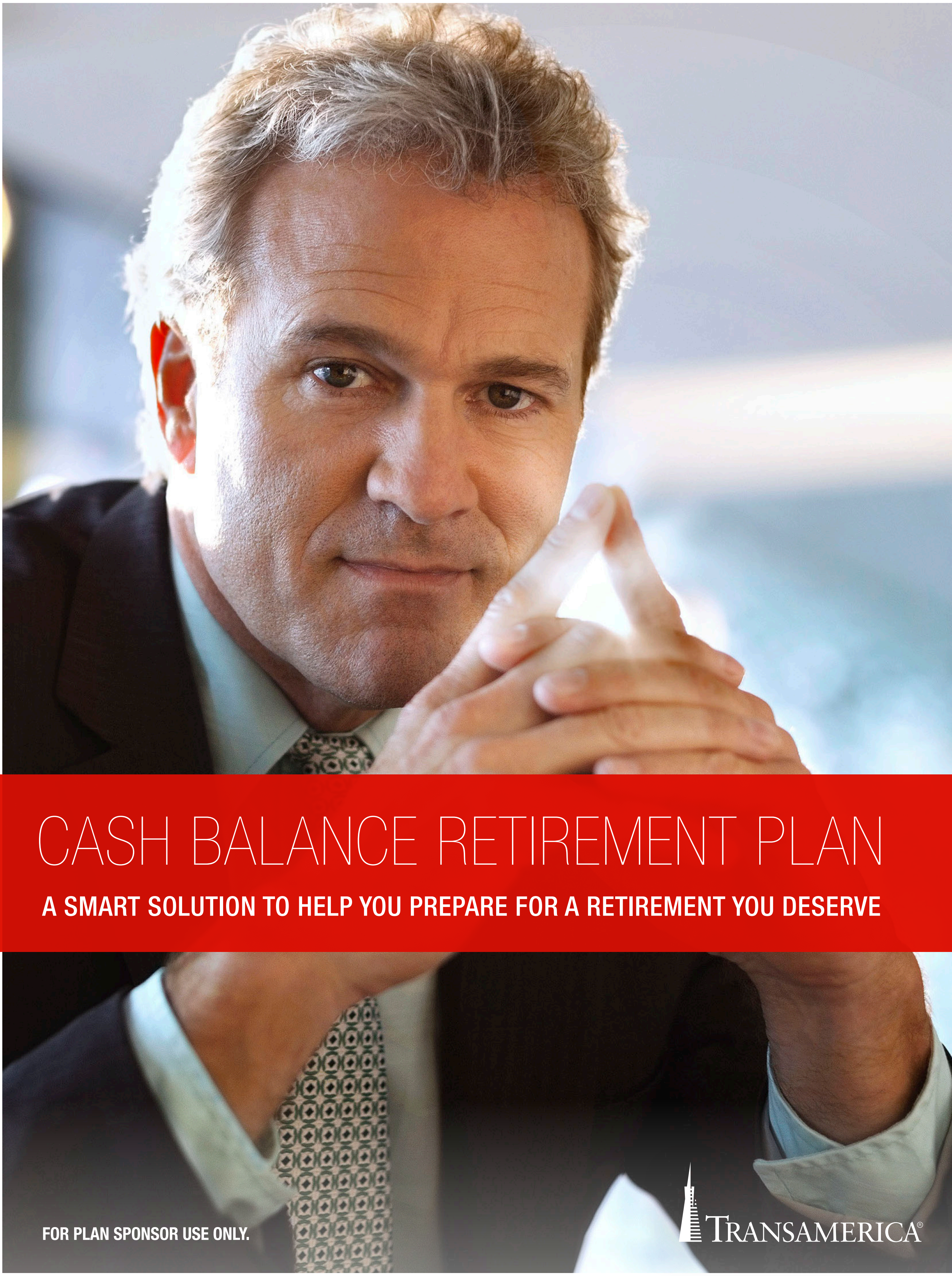
# CASH BALANCE RETIREMENT PLAN

## A SMART SOLUTION TO HELP YOU PREPARE FOR A RETIREMENT YOU DESERVE



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# Building a brighter retirement

Being a business owner, you know first-hand how important strategic planning is to your ongoing success. You've likely been busy helping your business grow, including reinvesting in your organization. In doing so, maybe you haven't set aside as much money as you would have liked in your retirement plan account.

If you are midcareer and planning ahead, or if you are nearing retirement and want to significantly increase the amount you're able to save each year, a cash balance plan may help.

# Cash balance basics

A cash balance plan is a defined benefit retirement plan, with similarities to a defined contribution plan. In a cash balance plan, participants have individual hypothetical accounts and account balances. Participants may be entitled to a lump-sum distribution upon termination of employment or retirement, like in a defined contribution plan, or promised a monthly income stream like that in a traditional defined benefit plan.

## HOW IT WORKS

You, as the business owner, can establish a cash balance plan on its own or in addition to a defined contribution retirement plan you already offer, such as a 401(k) or 403(b) plan. Assets in a cash balance plan are held in a pooled account, like a traditional defined benefit plan. You make contributions to the pooled account on behalf of all participants, and benefits are paid from the pooled account as well.

## MAKING PLAN CONTRIBUTIONS

As the plan sponsor, all contributions are made by you. Each year, you credit plan participants with a "pay credit" (such as 5% of compensation) and an "interest credit" (either a fixed interest rate or a variable interest rate).

## MAKING INVESTMENT DECISIONS

You, as the business owner, manage the plan assets and make all investment decisions. Unlike a defined contribution plan, participants in a cash balance plan do not choose their own investments. Changes in the market value of the plan's investments do not change the final benefit amount promised to participants at retirement or termination of employment. This means that promised benefits must be paid regardless of the profit or loss experienced by the cash balance plan investment portfolio. Although paying promised benefits is your responsibility, the benefits in most cash balance plans are protected by the Pension Benefit Guaranty Corporation.[†]

## MAKING DISTRIBUTIONS TO PARTICIPANTS

There are two basic distribution options for participants—annuity payments or a lump-sum distribution. Payment amounts are based on the value of a participant's hypothetical account. If a participant chooses a lump-sum distribution, it can be rolled over into an IRA or to another employer's plan if that plan accepts rollovers.

# SAGE | INVEST WITH WISDOM™

## Cash balance investment strategies powered by Sage.

### DESIGNED FOR CASH BALANCE PLANS

Sage strategies meet common cash balance plan objectives, including principal protection, common interest crediting rate targets, and an awareness of the annual investment time horizon.

### INCORPORATES DE-RISKING GLIDE PATH

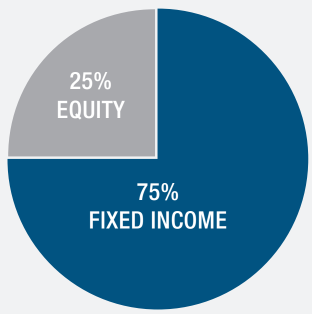
Each strategy starts with a base asset allocation target at the beginning of the year, and as each gets close to achieving that year's Interest Crediting Rate (ICR)* target, the Sage team will employ a glide path to de-risk the strategy.

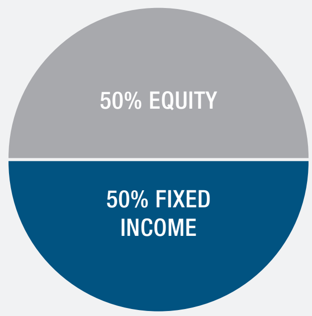
### IMPLEMENTED ENTIRELY WITH ETFs

Each strategy is implemented with exchange traded funds (ETFs) to provide scalable, cost-effective solutions.

All of the below strategies seek to earn certain rates* on an annual basis, while limiting volatility and downside risk. The interest crediting strategy will employ a flexible mandate to manage overall portfolio duration, sector allocation, and security selection.

### TARGET ASSET ALLOCATION


### SAGE CASH BALANCE CONSERVATIVE STRATEGY

> Seeks to earn the 10-Year Constant Maturity Treasury Rate as published at the end of the prior year

> Target asset allocation for the strategy is 100% fixed income

### SAGE CASH BALANCE MODERATE STRATEGY

> Seeks to earn the 30-Year Constant Maturity Treasury Rate

> Target asset allocation for the strategy is 25% equity and 75% fixed income

### SAGE CASH BALANCE GROWTH STRATEGY

> Seeks to earn a fixed crediting rate of 5%

> Target asset allocation for the strategy is 50% equity and 50% fixed income

*Interest Crediting Rates are established by the Internal Revenue Service for cash balance plans using the actual return on plan assets. The ETFs seek to earn this rate each calendar year.

Throughout the course of the year, the actual allocation will differ from the target allocation based on market conditions and progress towards the interest crediting rate target. The interest crediting rate target is an estimate of the annual return of the strategy, however, the target is not a guarantee of future performance. It is possible for the return of the strategy to differ significantly from the target over varying time periods. The target will be reset annually in December. The Sage strategies are collective investment funds ("CIF") created by the Hand Composite Employee Benefit Trust and sponsored by Hand Benefits & Trust Company, a BPAS company, a BPAS company, that invests in the strategies of Sage Advisory Services, Ltd. Co. which serves as the sub-advisory to the CIFs. The CIFs are available for investment by eligible qualified retirement plan trusts only and has been created specifically for cash balance pension plans and other employer-sponsored retirement plan investors. Sage Advisory Services, Ltd. Co. is not affiliated with Transamerica Retirement Solutions, LLC.

# See a cash balance plan in action

ABC Software Company already had a 401(k)/profit sharing plan, as shown in option 1. To increase the annual retirement plan contributions for the three owners (target employees), ABC Software Company also adopted a cash balance plan, as shown in option 2.

| | | | Option 1[1] Cross-tested profit sharing plan with Safe Harbor 401(k) | | | Option 2[2] Combined cross-tested profit sharing plan with Safe Harbor 401(k) and cash balance plan | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Age | Salary | Employer Profit Sharing Contribution Plus Safe Harbor | Employee 401(k) Contribution (plus catch-up, if any) | **Total Contribution** | Employer Cash Balance Contribution | Employer Profit Sharing Contribution Plus Safe Harbor | Employee 401(k) Contribution (plus catch-up, if any) | **Total Contribution** |
| Mr. Adams* | 60 | $270,000 | $36,000 | $24,000 | $60,000 | $235,891 | $36,000 | $24,000 | $295,891 |
| Mr. Baker* | 55 | $270,000 | $36,000 | $24,000 | $60,000 | $183,851 | $36,000 | $24,000 | $243,851 |
| Mr. Cox* | 45 | $270,000 | $36,000 | $18,000 | $54,000 | $111,788 | $36,000 | $18,000 | $165,788 |
| **Total Target Employees**** | | $810,000 | $108,000 | $66,000 | **$174,000** | $531,530 | $108,000 | $66,000 | **$705,530** |
| Total Other Employees** | | $805,000 | $36,225 | $36,225 | $72,450 | $16,100 | $84,525 | $0 | $100,625 |
| **Total Employees (Target + Other)** | | $1,615,000 | $144,225 | $102,225 | **$246,450** | $547,630 | $192,525 | $66,000 | **$806,155** |
| Portion to Target** | | 50.15% | 74.88% | 64.56% | 70.60% | 97.06% | 56.10% | 100.00% | 87.52% |
| Total Retirement & Plan Contribution | | | $144,225 | $102,225 | $246,450 | $547,630 | $192,525 | $66,000 | $806,155 |
| Estimated Tax Rate | | | 35% | 35% | 35% | 35% | 35% | 35% | 35% |
| Tax Savings | | | $50,479 | $35,779 | $86,258 | $191,671 | $67,384 | $23,100 | $282,154 |

The combination of the cash balance (defined benefit) plan and the 401(k)/profit sharing (defined contribution) plan provided a significant increase in the maximum contributions and benefits for the three owners, with relatively modest additional contributions and benefits for the rest of the practice's employees. By adding the cash balance plan and performing aggregated compliance testing on both plans, the contributions for target employees rose to $705,530, compared with just $174,000 in the 401(k)/profit sharing plan alone.

This defined benefit and defined contribution plan combination made it possible for the three owners to contribute an additional combined amount of $531,530.

The cost of covering the non-target employees was $100,625 or 12.5% of non-target employee payroll. This was an increase of $64,400 over the contributions made to the 401(k)/profit sharing plan alone. The tax savings on the additional contribution for the owners would more than offset the additional contribution cost for the rest of the employees.

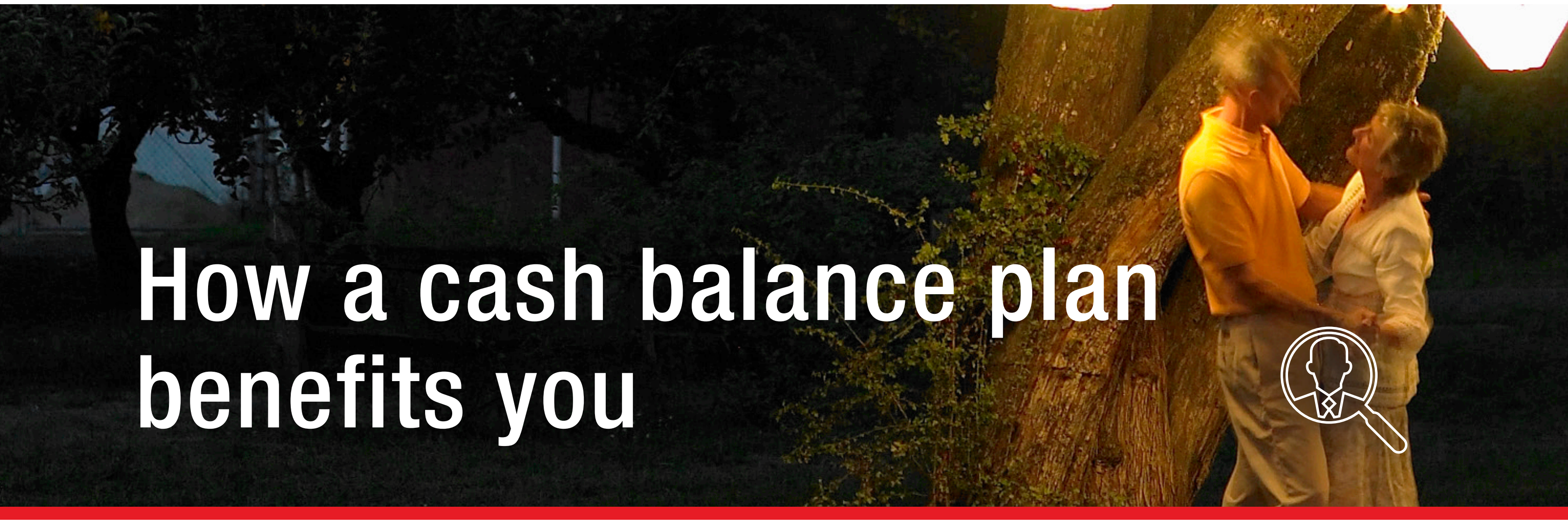
Case studies are illustrative only and do not imply an endorsement of any particular product or service. Each employer's situation is unique and results may vary.

*Target Employee.

**For ABC Software Company, target employees are owners who are also highly compensated employees (HCEs). Other employees are non-HCEs. Depending on your plan's provisions, target employees may be defined as HCEs, or as a combination of HCEs and non-HCEs.

[1] Option 1 assumes the plan is top heavy, with the minimum sponsor contribution provided in the defined contribution plan with a 3% non-elective safe harbor contribution to non-HCEs and a 1.5% profit sharing contribution to non-HCEs. Target employees defer the maximum amount in the 401(k) plan and, if applicable, defer $6,000 in catch-up contributions if over the age of 50, and receive 13.33% of pay profit sharing contribution. Assume the non-HCEs are not making 401(k) deferrals. However, the Actual Deferral Percentage (ADP) test passes due to the 3% non-elective safe harbor contribution.

[2] Option 2 assumes the plans are top heavy in the aggregate, with the minimum sponsor contribution provided in the defined contribution plan with a 3% non-elective safe harbor contribution to non-HCEs and a 7.5% profit sharing contribution to non-HCEs, as well as 2% of pay contribution in the cash balance plan to non-HCEs. The funding assumptions are the Internal Revenue Code 403(h) segment rates, applicable mortality table, and no salary scale assumption. Assume the non-HCEs are not making 401(k) deferrals. However, the ADP test passes due to the 3% non-elective safe harbor contribution. Assume that software engineers Adams, Baker, and Cox receive an 87.37%, 68.10%, and 41.0% pay credit respectively in their cash balance plan as well as the 13.33% of pay profit sharing contribution. Contribution amounts are estimates for planning purposes and should not be used as the basis for a tax deduction. The contribution amounts are based on current legislation that reflects the Pension Protection Act of 2006.



# How a cash balance plan benefits you

## A cash balance plan lets you increase the amount of money you're setting aside for retirement each year.[1]

If you have a 401(k) or 403(b) plan, you can contribute the maximum in that plan ($54,000 in 2017) and also contribute to the cash balance plan. Whether you can fund the maximum annual benefit in the cash balance plan ($215,000 in 2017) depends on certain testing.

Unlike a defined contribution plan, the maximum you can contribute to the cash balance plan is based on your age, so the closer you are to retirement, the higher your maximum contribution amount. If you've missed out on contributions in the past, a cash balance plan can help you to catch up.

The plan also offers flexibility in how you contribute for your employees. Contributions can be based on a percentage of pay or a flat dollar amount known as pay credits. They can also vary by class of employees, similar to a cross-tested or new comparability defined contribution plan.

As a plan sponsor, you choose the plan's investment lineup and make investment choices on behalf of all participants, which gives you control over the plan's investment strategy.

Contributions you make for yourself and on behalf of your employees reduce your company's annual tax liability.

### THE BENEFITS TO YOUR EMPLOYEES

- Benefits are generally portable and eligible to be rolled over into an IRA or another qualified retirement plan
- Benefits are tax-deferred until benefit payments begin
- ERISA[2] protects qualified plan assets from creditors in the event of a lawsuit or bankruptcy
- Benefits are based on a fixed formula, so participants don't bear investment risk

### THE BENEFITS TO YOU

#### YOU MAY BENEFIT MOST FROM A CASH BALANCE PLAN IF:

- You're an older employee nearing retirement.
- You want to catch up on retirement contributions.
- You're able to make retirement plan contributions in excess of the IRS limits on defined contribution plans, which is $54,000 in 2017.
- You belong to a professional group, such as physicians, dentists, engineers, architects, accountants, or lawyers, that wants to maximize retirement contributions.
- Your organization has predictable cash flows.
- Your organization is a family-run business or closely held business.

[1] Within allowed PBGC Benefit limits.
[2] Employee Retirement Income Security Act of 1974 (ERISA)

# Support you can count on

## When you establish a cash balance plan with Transamerica, we're with you every step of the way. You can look forward to:

- A customized investment review upon request.
- Same-day sponsor-directed reallocations when requests are received by 4 p.m. ET on business days.
- Combined defined benefit/defined contribution (DB/ DC) participant statements, if you have both a cash balance plan and a defined contribution plan.*
- Dedicated payee support with translation services, if needed.

Plus, there are many advantages to maintaining multiple plans with Transamerica. Data collection can be streamlined, participants can receive combined benefit statements, and you can potentially save on administration costs.

Let us help you on this journey. We'd love to talk about your options.

### ABOUT SAGE ADVISORY SERVICES, LTD. CO.

Sage, based in Austin, Texas, is an independent, client-focused investment management firm. Sage has a long history of working with defined benefit and cash balance plans and offers expertise in crafting asset allocation strategies. With Sage, we can help create a retirement worth looking forward to.

### WHY TRANSAMERICA

At Transamerica, we're in the business of helping individuals and families achieve a lifetime of financial security.

That's why we deliver the right retirement tools, including cash balance defined benefit, defined contribution, and nonqualified deferred compensation plans, so that you're prepared and protected for what the future may bring. Together, we'll create solutions to help our plan sponsor clients and their employees have a bright financial future.

*The DC plan must be with Transamerica.

# LEARN MORE ABOUT WHAT A CASH BALANCE PLAN CAN DO FOR YOU

**CALL US** at 888-401-5826 M–F 9 a.m. – 7 p.m. ET
**VISIT** TA-Retirement.com

† In the event a defined benefit plan terminates before benefits are fully funded, the Pension Benefit Guaranty Corporation (PBGC) steps in to pay guaranteed benefits. The PBGC protects the retirement incomes of more than 40 million American workers in more than 26,000 private-sector defined benefit pension plans. PBGC collects insurance premiums from employers that sponsor PBGC-covered pension plans. The PBGC does not insure pensions for small professional practices (a doctor, lawyer or other professional with fewer than 25 employees.) Transamerica Retirement Solutions is not affiliated with the PBGC. For 2017, the maximum guaranteed amount is $64,432 per year for workers who begin receiving payments from PBGC at age 65. The maximum guarantee is lower if you begin receiving payments from PBGC before age 65 or if your pension includes benefits for a survivor or other beneficiary. The maximum guarantee is higher if you are over age 65 when you begin receiving benefits from PBGC.

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