Investment Solutions for Cash Balance and DB Plans

Do you want to add more cash balance and defined benefit (DB) plans to your block of business? The first step is educating yourself on these types of plans. Grow your practice with this helpful education and discover the investment solutions available to you and your clients.

Overview

The investment allocation of a cash balance or DB plan (traditional pension plans fall under this category) should be set according to the plan's liability and/or objective. For cash balance plans, a crediting rate is typically targeted. This should be the rate of return the underlying investment strategy is targeting to achieve. For traditional defined benefit plans, there is a percentage of the liability that is funded (funded status), which dictates how the plan should be invested. The underlying investment strategies should take on no more risk than is required, so that the probability of funding the benefit is optimized. Generally speaking, as the funded status increases, the portfolio should be moving away from return seeking assets (equities) and into liability hedging assets (fixed income.)

Cash Balance Plan Terms

Crediting rate – This is the guaranteed rate credited to participants on an annual basis. This rate can help drive the allocation decision in addition to the costs to run the plan (i.e., if the plan's crediting rate is 5% and the costs/fees to run the plan are approximately 1%, then the target return for portfolio would be 6%)

- *The crediting rate and/or expected rate of return will help drive the allocation policy. The higher the targeted rate of return, the more aggressive the asset allocation.*

Funded status – The ratio of the plan's assets to liabilities (PBO)

- *The greater the funded status, the more conservative the plan's allocation should be to fixed income or "liability hedging assets."*

Exclusive Cash Balance CIT through flexPATH Strategies

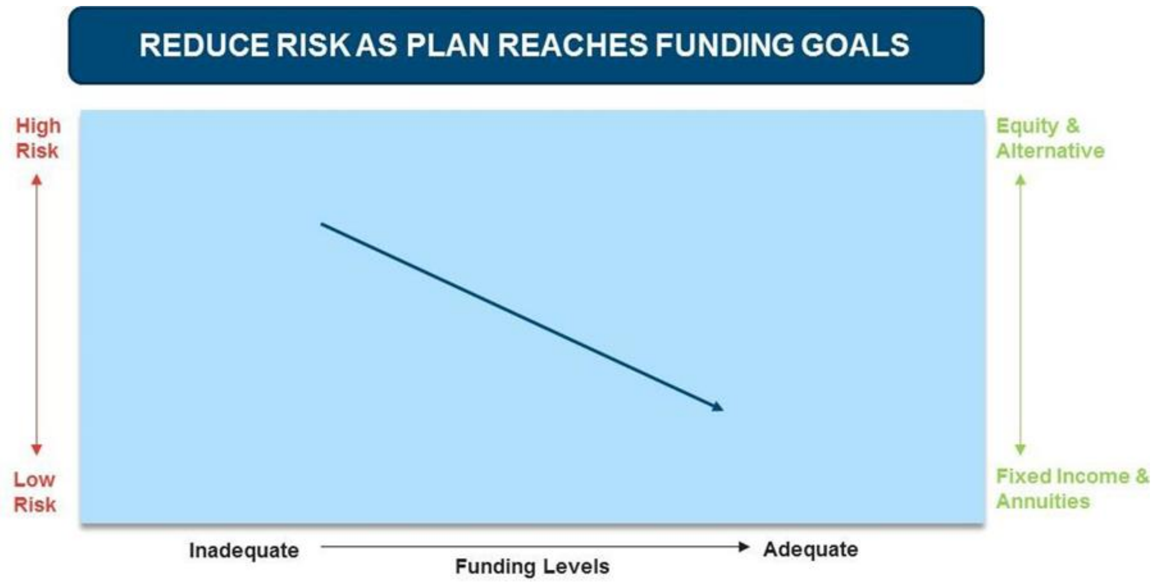
Most cash balance plans target a crediting rate of 4%. The Cash Balance CIT targets 4% as its mid-point expected outcome, with a range of return expectations from 3-5%. The strategy is rebalanced quarterly and updated annually using updated capital market assumptions. This investment solution comes with commentary and allocation updates on a quarterly basis which can be found on the RPAG Resource Center.

Return Target	Fund
3-5%	Cash Balance CIT

Traditional Defined Benefit Terms

Funded status – The ratio of the plan's assets to liabilities (PBO). The PBO can typically be found in the plan's most recent actuarial report or provided on request by the plan's actuary.

- *The greater the funded status, the more conservative the plan's allocation should be to fixed income or "liability hedging assets." If the plan is funded well enough to pay current and future benefits, there is no reason or strong rationale to accept more risk around this benefit stream than necessary. A suggested weighting across equity/alternatives and fixed income is shown below:*



Return seeking assets – Generally equity-focused but may include other asset classes to increase return and/or lower portfolio risk.

Liability hedging assets – Typically credit-focused but may include other asset classes to increase return and/or lower portfolio risk.

Open (going concern) vs. closed/frozen plans – The glidepath for closed plans typically de-risks at a higher rate as you close the funding gap. This is due to the closing date and known cash flows.

Time horizon – Frozen or closed plans need to be more conservative since the liabilities are finite and of a shorter duration than as compared to a going concern (existing perpetually).

- *Frozen or closed plans should be positioned more conservatively, with fixed income assets closely approximating the duration of the liability.*

Balance sheet volatility – The plan liability is reflected on the company's balance sheet. An asset mix that is invested in long-duration fixed income (hedging) assets will track the liability to a greater extent, limiting the surplus/shortfall that will be experienced.

- *A more conservative allocation, with the fixed income allocation closely approximating the duration of the plan's liabilities, will help reduce balance sheet volatility.*

Traditional DB Investment Solutions according to funded status using flexPATH CITs

LDI Glidepath Guidelines (Closed Plan- no longer accruing benefits)

Funded Status (PBO)	Return Seeking	Liability Hedging	% Weight / flexPATH Portfolio	% Core Plus Bond Fund (PGIM)
>115	0	100	0	100
110-115	0-2.5	97.5-100	5 / Conservative Retirement	95
105-110	0-5	95-100	10 / Conservative Retirement	90
100-105	5-10	90-95	20 / Conservative Retirement	80
95-100	10-20	80-90	35 / Conservative Retirement	65
90-95	20-35	65-80	100 / Conservative Retirement	0
85-90	35-50	50-65	100 / Moderate Retirement	0
80-85	50-65	35-50	100 / Aggressive Retirement	0
75-80	60-70	30-40	100 / Conservative 2055	0
70-75	65-80	20-35	100 / Conservative 2055	0
65-70	70-80	20-30	100 / Moderate 2035	0
<65	75-85	15-25	100 / Aggressive 2035	0

LDI Glidepath Guidelines (Open Plan)

Funded Status (PBO)	Return Seeking	Liability Hedging	% Weight / flexPATH Portfolio	% Core Plus Bond Fund (PGIM)
115-120	0-10	90-100	10 / Conservative Retirement	90
110-115	5-15	85-95	20 / Conservative Retirement	80
105-110	10-20	80-90	40 / Conservative Retirement	60
100-105	15-25	75-85	65 / Conservative Retirement	35
95-100	20-30	70-80	70 / Conservative Retirement	30
90-95	25-35	65-75	100 / Conservative Retirement	0
85-90	35-50	50-65	100 / Moderate Retirement	0
80-85	50-65	35-50	100 / Aggressive Retirement	0
75-80	60-70	30-40	100 / Conservative 2055	0
70-75	65-80	20-35	100 / Conservative 2055	0
65-70	70-80	20-30	100 / Conservative 2055	0
<65	75-85	15-25	100 / Moderate 2055	0

A long credit bond fund, if available, may be used for 75% of the core bond plus allocation to better match a longer duration liability.

For more information on CITs exclusively available to RPAG, please contact RPAG support at 877.360.2480 or support@rpag.com.