FinArc

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THE FINANCIAL NEWSLETTER OF FINARC, LLC

Cash Balance Defined Benefit Plans

By Matthew C. Slaney, Portfolio Manager

While many corporate employers currently offer defined contribution retirement plans, e.g. 401(k)s, to their workers, defined benefit plans are still popular retirement programs for government employees and a number of companies as well. The main difference between defined benefit (DB) and defined contribution (DC) plans is whether the company or the employee bears the risk of the employee achieving the desired level of income at retirement. DB plans promise to pay their employees recurring checks during retirement. The level of payment is typically a function of how many years the individual worked for the organization and their average income during their last few years there. DC plans make no promise of future paychecks, but give employees control of their investments during their employment years. The employee determines how to invest the assets in an account with the expectation that the account will serve as a source of income during retirement.

Cash balance defined benefit plans offer a combination of the features present in traditional DB plans and DC plans. The main advantage over a traditional DB plan is portability of the retirement assets for workers who change jobs after five or so years. In cash balance DB plans, a "hypothetical" account is established for the employee. Upon leaving the organization, the employee may receive a lump sum payment which can be deposited into a Rollover IRA. "Real" assets in a Rollover IRA are controlled by the account holder and can be invested as the owner sees fit. Investment returns associated with DB plans are typically tied to a benchmark security, such as a treasury bond. If an employee receives a lump sum, and invests in riskier securities such as equities, it is possible to achieve a higher benefit during retirement. Of course the level of investment risk an individual should undertake is unique to their particular circumstances, so the lump sum payment is not appropriate in all cases.

Cash balance DB Plans have been rightfully criticized in some instances due to the fact that long-term employees may be disadvantaged by them. The reason is that in traditional DB plans, workers typically accrue their greatest increase in benefits during

News

SmartMoney interviewed **Catherine Friend White** for their article, *Do the Right Thing*. You can see it on their website www.smartmoney.com with an advanced search for **FinArc**.

Catherine Friend White has been published in the September issue of *The Journal of Investing*, published by "Institutional Investor." Her article focuses on the best practices of socially responsible investing in Europe.

FinArc has joined the Responsible Business Association of Greater Boston. The RBA is an organization that aspires to share lessons learned regarding best practices in the workplace and in relation to our communities.

FinArc is delighted to announce the hiring of **Arlene Chaplin** as our new

(Defined Benefit Plans cont.)

their late employment years. This is because the length of employment raises the percentage of income used in calculating the retirement benefit, as well as the fact that older, experienced employees tend to earn more (raising the level as well) than their younger counterparts. Without proper adjustments, older employees can lose out if their employer converts from the traditional model to a cash balance DB plan. Regulations are in place to protect employees from being financially damaged by improper DB plan conversions.

Why do some employers convert to cash balance DB plans from traditional DB plans? First, they hope to attract new, highly mobile, talent to the organization. Second, it can be good for their bottom line. Pension cost is a major expense for many large corporations, sometimes among their largest expenses. Accounting rules can reduce this expense when the conversion is made.

If you participate in a defined benefit plan, we suggest taking the following steps to assess your retirement finances.

- Speak with your employer and determine whether the plan is traditional or cash balance.
- Request the Summary Plan Description from your employer. This will provide you with your accrued benefit and current account balance, as well as other information.
- Ask your employer if it is possible to take a lump sum distribution and transfer that amount into a Rollover IRA. Some traditional DB plans also allow lump sum distributions, so this is a reasonable question in either case.
- Speak with us about the economic advantages and disadvantages of considering a rollover of the distribution.
- Speak with your tax advisor about the tax consequences (if any) of rolling over the lump sum.

Source: United States General Accounting Office 1999-2000 survey of a random sample of 420 firms in the 1999 Fortune 1000 list.

(News cont.)

part-time investment assistant. Arlene was formerly an administrator at Tufts University and Deaconess Hospital in Boston. Arlene received her B.A. from Northeastern University and her M.S. in Administration from Boston University. She brings many years of experience to FinArc and we are all very excited about her joining our team.

Catherine Friend White and **David Malone** were both featured on WBZ Radio's Market Reports on August 26th.

Gift Options that Match your Goals

There are many ways to make charitable gifts to your favorite organizations; so many that it can be very confusing as to the best way to maximize the benefit for both you and the recipient.

FinArc can assist you in determining the most appropriate method for your individual needs. Please contact us and we would be happy to advise you on how best to make gifts to your preferred charities.

On the following page is a sample of how you can make your charitable contributions to meet your goals and how it will benefit the recipient of your gift.

(Gift Options cont.)

If your goal is to:	*Then you can:*	*And your benefits are:*
Make a quick and easy gift.	Simply write a check or make a credit card gift.	An income tax deduction and immediate impact for recipient.
Avoid tax on capital gains.	Contribute long-term appreciated stock or other securities.	A charitable deduction plus no capital gains tax.
Make a revocable gift during your lifetime	Name your charity the beneficiary of assets in a living trust	Full control of the trust for your lifetime.
Defer a gift.	Put a bequest in your will (give cash, specific property, or a share of the residue).	Your donations are fully exempt from federal estate tax.
Reduce gift and estate taxes on assets you pass to children or grandchildren.	Create a charitable lead trust that pays income to the recipient for a specific term of years.	It has the estate tax benefits of a gift, but your family keeps the property.

Advisory Board Spotlight

This issue of Building Capital introduces you to **Richard White**, another member of FinArc's Advisory Board.

Richard manages performance testing for Fidelity Brokerage Services. His technical career began as a programmer in 1982, advancing through software engineering positions at Cullinet Software and Compuware. He received a Bachelor of Arts in Philosophy and Economics from Dickinson College where he was a member of Phi Beta Kappa and on the Varsity Swimming and Cross Country Teams.

Richard's primary focus at Fidelity is automation of systems. He is involved in the analysis, planning and implementation of how best to use technology to automate processes within a business. His expertise has assisted FinArc in embracing technology and its advances without losing its personal touch in how it provides superior client service.

When not working, Richard enjoys playing tournament checkers, music, puzzles and mathematics.

Happy Birthday Social Security

On August 14th, Social Security turned 70. The debate continues as to the health of the program. In the meantime, here are a few facts that may be of interest:

- The first person to receive social security paid $24.75 in taxes to the program from 1937-39. She received more than $22,000, living until 1975.
- The tax rate for Social Security, including employer contribution, has risen 520% since 1935.
- A 2001 audit showed that $31 million had been paid to the dead.
- The average monthly retirement benefit is $955.

Community News

Congratulations to **Liv Nash** for having biked 84 miles as part of the Pan Mass Challenge this past August. She and her team raised over $250,000 for the Perry S. Levy Fund for Gastrointestinal Cancer Research at Dana Farber.

Catherine Friend White, in association with the Dover Historical Society, has been working on Dover's Old Home Day event scheduled for early October. The event provides fun-filled family activities for the community and surrounding areas

Liv Nash joined efforts to raise funds for victims of Hurricane Katrina by participating in a community yard sale in Needham.

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Schwab Confirmations and Statements via Email

As a reminder, Charles Schwab currently offers trade confirmations via email and will soon be offering emailed statements. If you are not yet enrolled in this program and would like to be or simply have questions, Liv is happy to assist you. You can email her or contact her at 781-449-8989.