

# Cash Balance Plan vs. Direct Recognition Variable Investment Plan



## What is a Direct Recognition Variable Investment Plan (DR-VIP)?

The DR-VIP is a qualified retirement plan designed to optimize benefits, mitigate risk and minimize costs, for companies with business owners and professionals who see increased tax-deductible contributions in excess of the defined contribution plan limit.

### A side-by-side comparison:

The DR-VIP has distinct advantages when compared to a Cash Balance Plan.

CASH BALANCE PLAN	DR-VIP
<b>Minimum benefit</b>	
Subject to the Preservation of Capital Rule which guarantees that the annual contribution credits participants receive will never be lost. If a CB plan uses a market rate of return to credit interest on participant balances and the market rates are negative, the company must fund losses to ensure the value of participant balances are at least the value of all pay credits received.	Variable defined benefit plan and therefore not subject to the Preservation of Capital Rule. Benefits increase or decrease in direct relation to the plan's actual investment returns.
<b>Underfunding risk</b>	
Must guarantee each participant their total contribution credits plus the interest credit rate. If plan assets decrease the company must make up for the loss with additional employer contributions.	Mitigated risk. Participant benefits increase or decrease in direct relation to the performance of the pooled account. If there are decreases in the pooled account due to market performance benefits are reduced so that there is no impact on the plan's funded status.
<b>Lump sum benefit</b>	
Designed to be the annual contributions plus interest credit rate (typically 30-year treasury rates, a specific rate of return such as 5%, or the fund's actual annual rate of return).	Designed to be the annual contributions accumulated with the actual investment performance of the pooled account.
<b>Annual required contributions</b>	
Can vary depending upon performance of pooled account and market conditions.	Plan contributions are known, consistent and reliable (i.e., very limited exposure to under-funding).
<b>Investment of the plan assets</b>	
Generally, invest to match the promised interest credit rate. Typically, a conservative strategy is used because the firm wants to limit losses which they will have to fund and gains above the interest credit rate in which they will not be able to share. This can also cause problems with certain testing rules.	Invest in accordance with the company's objectives and can change objectives and/or the underlying investment vehicles (mutual funds) at any time. The firm does not have to fund for losses in the pooled account and participants can share in any gains, so the firm is free to invest in accordance with their objectives.

## CASH BALANCE PLAN

## DR-VIP

### Valuation & participant distributions

Typically annual valuation and monthly distributions. Distributions can impact plan's funding status.

Daily valued and distributions can occur at any time with no effect on plan's funding status. Allows for in-service withdrawals at age 59 ½ so participants can roll the value of their benefit to the 401(k) plan or to an IRA where they can self-direct their investments.

### Participant access

Typically annual statement.

Daily access via website to see their value of their benefit.

### Vesting

All participants must be 100% vested after working 3 years for a company, rewarding employees with a benefit after working for a company for a short period of time.

100% vesting of all participants can be graded over a 6-year employment period, rewarding employees for staying longer and allowing more non-vested terminated staff benefits to be used to offset future contributions.

### How USI Consulting Group (USICG) can help

USICG's integrated team will collaborate with your organization to create a tailored retirement plan that accomplishes your goals to maximize tax deferrals and retirement savings and minimize staff cost, with the constraint of satisfying all IRS nondiscrimination testing requirements.

To learn more about our DR-VIP and how we can help you, please reach out to us at [VIPNewBizSupport@usi.com](mailto:VIPNewBizSupport@usi.com).