



RETIREMENT PLAN
SERVICES

Cash Balance Plans: the evolution of retirement saving



In addition to our popular 401(k) plans, John Hancock offers another retirement plan option that you can share with your employees – our Defined Benefit Program featuring the innovative Cash Balance Plan.

What is a cash balance plan?

A Cash Balance Plan is similar to a Defined Benefit Plan but also combines some of the features of a Defined Contribution Plan. Each participant has a hypothetical account and their retirement income can grow in two different ways. First, the account is credited with contribution credits. And second, the account can increase with an interest credit, which is guaranteed and not dependent on the plan's investment performance.

Key features of a Cash Balance Plan

Cash Balance Plans combine the maximum benefit amount that can be provided by a Defined Benefit Plan with some of the flexibility and the portability of 401(k) and profit sharing plans. Here are some of the key features of a Cash Balance Plan:

- **Individual Hypothetical Accounts:** Each participant has an account that tracks his or her contribution credits and interest credits
- **Annual employer contribution:** The hypothetical account is credited annually with an employer contribution, which is determined by a formula in the Plan Document. The contribution amount is typically a percentage of a participant's salary
- **Interest Credit:** Because it is a Defined Benefit Plan, the interest credit is guaranteed to the participant and not dependent on the plan's investment performance
- **Pooled Account:** All plan assets are invested collectively by the Plan Trustee in one pooled account
- **Benefits May Be Portable:** If an employee leaves their company, the vested portion of the account can be taken as a lump sum or rolled over to an IRA.

Benefits to Plan Sponsors

Incorporating a Cash Balance Plan offers significant advantages for your organization:

- A more predictable cost than traditional Defined Benefit Plans
- Company owners may be able to make higher contributions than permitted with Defined Contribution plans
- Significant tax deductions are available to organizations utilizing Cash Balance Plans
- A competitive advantage in recruiting and retaining key executives

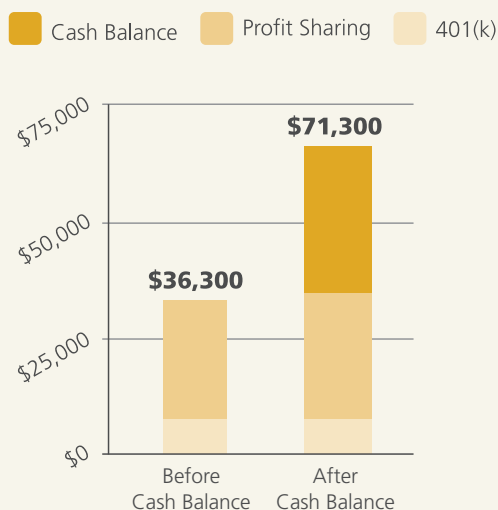
Benefits to Participants

Cash Balance Plans also offer significant benefits to participants. These innovative plans:

- Allow for larger contributions and tax deductions than Defined Contribution Plans
- Provide an opportunity for acceleration of retirement savings for older employees because greater contributions are required to fund their benefits
- Benefits are simple to understand in the form of a hypothetical account balance
- Benefits may be portable in the event of a job change or termination

Example of a Cash Balance Plan in action¹

In the illustration below, a large law firm has decided to add a Cash Balance Plan.



THE NEED:

A group of lawyers are interested in putting more into their pension plan than the limit of \$49,000 for Defined Contribution plans, and also to obtain the associated tax deductions.

The law firm consists of 50 lawyers (all over 40 years old, with 27 being over 50) who are also partners in the firm. All employees are Highly Compensated Employees (HCE) with salaries ranging from \$105K to \$500K. Eight of them are senior executives earning more than \$400,000 annually.

THE SOLUTION:

A Cash Balance Plan was adopted in addition to their firm's existing 401(k)/profit sharing plan. The Cash Balance Plan allowed the lawyers to contribute more than the \$49,000 limit for their Defined Contribution Plan.

THE RESULT:

- Average contributions for partners within the firm increased from \$36,300 to \$71,300 per year
- Eight employees are able to contribute more than \$100,000 annually

For more information on the many advantages associated with Cash Balance Plans and the John Hancock Defined Benefit Program, please contact your financial representative today.



¹ This illustration shows only the cost of the contributions to the firm. Staff employees and associate attorneys pay for their own 401(k) contributions. The contribution for regular employees (42) is assumed to be 5% of salaries, while the contribution for senior executives (8) is assumed to be 35% of salaries. The calculations are based on 2009 contribution limits. This is a hypothetical mathematical illustration that does not include interest rate and mortality assumptions as this example does not involve any projections. Results will vary from case to case. This is intended for general information purposes only. John Hancock Retirement Plan Services is not responsible for any errors or omissions herein.

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