A Missing Piece in Your Cash Balance Plan Strategy: A True Investment Partner

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Cash balance plans continue to gain traction among many organizations, but professional service firms in particular are taking note — law firms, medical practices, accounting/consulting groups and other closely held businesses look to cash balance plans to turbocharge tax deferral and retirement savings. In March 2025, the Wall Street Journal reported on the explosion of cash balance plans with plan assets totaling more than $1 trillion.[1] However, many plans struggle in balancing the competing objectives of the tax deferred income benefit versus the investment outcome within the qualified defined benefit structure of these plans.

This is especially critical for actual market rate cash balance plans, which are emerging as a powerful and flexible alternative to more traditional designs.

Understanding Actual Market Rate Cash Balance Plans

Unlike first-generation cash balance plans, which credit participants with a fixed annual interest rate (e.g., 4% or 5%) or with a rate tied to the annual yield of Treasury bonds, actual market rate cash balance plans credit interest based on the actual performance of the plan's investments — typically tied to a diversified portfolio.

The "first-generation" cash balance plans started to emerge in earnest following the passage of the Pension Protection Act of 2006, gaining even more momentum after IRS regulations issued in 2014 clarified how these plans could safely credit interest based on actual investment performance. These updated regulations paved the road for today's new generation of cash balance plans, addressing many of the shortcomings of its older counterpart. Actual market rate cash balance plans can be designed to:

- Eliminate the mismatch between investment returns and crediting rates
- Reduce volatility in required employer contributions
- Simplify plan funding and actuarial assumptions
- Allow for higher contributions in many cases
- Improve participant engagement, since account values grow based on real market performance

[1] The Wall Street Journal, "The Retirement-Savings Weapon Doctors and Lawyers Use to Build Wealth" March 8, 2025

This new and improved design was a game-changer in the cash balance space, requiring a rethink of investment strategies tailored to this next generation of cash balance plans. But to unlock these potential advantages, the plan must be properly designed and expertly invested, balancing investment returns with capital preservation requirements, plan demographics and 415 limitations. That is where most advisors fall short.

The Danger of "One-Size-Fits-All" Advice

Too many cash balance plans, especially market rate plans, are thrown into generic investment strategies with little regard for plan liabilities, contribution objectives, plan demographics or crediting methodology. That kind of misalignment can lead to:

- Contribution volatility
- Missed savings opportunities for participants
- Plan design that does not meet the sponsor's long-term goals

That is why working with an investment advisor who specializes in cash balance plans — particularly market rate plans — is essential.

How Fiducient Advisors Can Help

At Fiducient Advisors, we understand that the goal isn't just return — it is alignment. We partner with Plan Sponsors to:

- Tailor portfolios that mirror the plan's crediting strategy
- Design allocations that seek to maximize participants' ability to save for retirement as they approach retirement
- Coordinate with actuaries to manage contribution levels and plan funding
- Monitor ongoing performance relative to plan obligations
- Educate stakeholders on how the plan works — and why it is so valuable

With market rate plans especially, the investment strategy could be the piece of the puzzle that makes the picture complete. So, getting it right is non-negotiable.

Ready to Put Together the Pieces of Your Retirement Puzzle?

Reach out to Fiducient Advisors regarding your investment strategy to assess whether it aligns with your plan's structure, especially if you are using (or considering) a market rate return design.

About the Author

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Kate services institutional clients by providing advice and counsel on all areas of fund oversight including investment policy development, asset allocation, manager research, portfolio structure, rebalancing and performance monitoring. She has significant experience developing and overseeing liability-driven investment strategies, strategic asset allocation, spending policies and plan design considerations. Kate co-leads the firm's Defined Benefit Business Councils for both corporate and municipal plans and is a member of the firm's Investment Committee. She joined Fiduciary Investment Advisors, LLC in 2018, which combined with Fiducient Advisors in 2020.

Prior to joining the firm, she was a Managing Director in Hooker & Holcombe's investment advisory group and also served as a Senior Investment Strategist and fixed income portfolio manager for Prime Advisors, Inc. Kate received her BA from Boston University and is a CFA® charterholder. She is also a credentialed actuary experienced in pension valuations. Kate is a member of the CFA Institute, an Associate of the Society of Actuaries, a member of the American Academy of Actuaries, a board member of the CFA Society Hartford, a member of the Finance Committee for the Hospital for Special Care in New Britain, CT and volunteers for Junior Achievement. She enjoys bedtime chats with her daughters, taking advantage of the outdoors (skiing, kayaking, hiking, biking), and playing the piano.