

Market Rate 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 Market Rate Cash Balance (MRCB) Plan.

MRCB	DR-VIP
Minimum benefit	
<p>Subject to the Preservation of Capital Rule which guarantees that the annual contribution credits participants receive will never be lost. If 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. Many times a majority of benefits are for target employees, this can lead to issues as they are generally older and closer to collecting their benefit. Or if a retired target leaves their money in the plan and takes it out after a market downturn, the plan sponsor would need to fund shortfall.</p>	<p>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.</p>
Underfunding risk	
<p>Must guarantee each participant their total contribution. If plan assets decrease the company must make up for the loss with additional employer contributions.</p>	<p>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.</p>
Lump sum benefit	
<p>Designed to be the annual contributions accumulated with the actual investment performance of the pooled account but subject to floor and possible cap (i.e., 6%).</p>	<p>Designed to be the annual contributions accumulated with the actual investment performance of the pooled account.</p>
Annual required contributions	
<p>Can vary depending upon performance of pooled account and market conditions.</p>	<p>Plan contributions are known, consistent and reliable (i.e., very limited exposure to under-funding).</p>

MRCB

DR-VIP

Investment of the plan assets

Typically, a conservative strategy is used because the firm wants to stay between an annualized return of 0% and 6%.

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.

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.