



Defined Benefit Pension Plans

The Defined Benefit Plan is an effective tool for employers who desire, and are committed to, funding a contribution in excess of the “25% of pay” or \$53,000 limit available in defined contribution plans. The plan works on the premise of providing a *defined* stream of payments for the duration of a participant’s retirement. The contributions to the plan are the amounts required to accumulate the sum of money needed to pay this stream of payments. There are limits to the amount of benefit which may be anticipated, there is no annual contribution limit.

Key Plan Features and Commitments

Contribution Features

- Allows for large tax deductions and rapid accumulation of assets in a short period.
- Generally provides greater contributions for participants close to retirement age.
- Ideal for older business owners with stable cash flows who wish to defer taxation.

Plan Sponsor Commitments

- The plan is generally required to be sponsored for three to five years.
- Contributions have some flexibility but are required on an annual basis.
- Plan requires annual certification by an enrolled actuary (included in APC fees).
- May require government Pension Benefit Guaranty Corporation premium payments.

Sample Plan Allocation

Participants	Age	Compensation	Deduction	Percent of Contribution	Accumulation at Retirement*
Key EE	55	\$ 265,000	\$ 192,500	93%	\$ 1,834,000
Employee 1	24	\$ 25,000	\$ 2,500	1%	\$ 23,000
Employee 2	28	\$ 35,000	\$ 4,500	2%	\$ 43,000
Employee 3	32	\$ 45,000	\$ 8,000	4%	\$ 76,000
Total		\$ 370,000	\$ 207,500		\$ 1,976,000

*As of Key Employees retirement date, assumed to be age 62 for this illustration.