Defined Benefit Plans can provide large benefits to highly compensated employees and business owners, including the ability to fund for large retirement benefits on a pre-tax basis in a relatively short period of time.

How Do Defined Benefit Plans Work?

- **Benefit vs. Contribution** – In a Profit Sharing Plan, the contribution is determined annually by the employer and the amount a participant receives at retirement depends on investment performance. In a Defined Benefit Plan, the retirement benefit is defined in the plan document and the amount funded depends on actuarial factors and assumptions.

- **Required Employer Contributions** - Contributions to Defined Benefit Plans are not discretionary. The employer must fund a required contribution each year based on calculations made by the plan’s actuary to ensure the plan has enough funds to pay retirement benefits for employees.

- **Benefit Formula** – A plan’s benefit formula is generally expressed in terms of a percentage of pay after a participant retires. Lump sum payment options are also permitted.

- **Contribution Limits** – Because contributions are funded based on actuarially calculated benefits, the contribution limit is equal to the actuarially determined liability for a plan year. While the maximum individual contribution to a profit sharing plan is $56,000, contributions to a Defined Benefit Plan may be $100,000 or more.

- **Investment Risk** – The retirement benefits in a Defined Benefit Plan are unaffected by investment gain and loss. The employer bears the investment risk of the plan. This means that contributions to the plan may fluctuate from year-to-year based on investment returns and other factors.

Is a Defined Benefit Right for Me?

A Defined Benefit Plan may be a good if:

- **Seek Large Contributions** - you seek contributions and tax deductions> $56k.

- **Profitable Business** - your business has strong profits and reliable cash flow.

- **Prepared to Contribute** - you are prepared to contribute required contributions for employees each year.

- **Time to Catch Up** - you have used cash to build your business and postponed retirement savings and you desire to contribute for five or more years.

- **Older Business Owners** – works well for older business owners.

Learn more about Defined Benefit Plans at [www.julyservices.com](http://www.julyservices.com).

### Defined Benefit Plan Illustration

<table>
<thead>
<tr>
<th>EMPLOYEE</th>
<th>AGE</th>
<th>RETIREMENT AGE</th>
<th>SALARY</th>
<th>TARGET LUMP SUM AT RETIREMENT</th>
<th>ANNUAL BENEFIT AT RETIREMENT</th>
<th>CURRENT CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>48</td>
<td>62</td>
<td>$280,000</td>
<td>$2,750,000</td>
<td>$225,000</td>
<td>$174,000</td>
</tr>
<tr>
<td>Spouse</td>
<td>44</td>
<td>62</td>
<td>$30,000</td>
<td>$290,000</td>
<td>$30,000</td>
<td>$19,000</td>
</tr>
</tbody>
</table>

This example illustrates a defined benefit plan for an owner-only business with one Owner and Spouse both working in the business. This is a hypothetical example and actual results will change based on your company's demographics and other actuarial factors.