Defined Benefit Plans

Accelerate Savings, Maximize Tax Deductions

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 $57,000, 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> $57k.
- **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.

Defined Benefit Plan Illustration

DEMOGRAPHICS				CONTRIBUTIONS		
EMPLOYEE	AGE	RETIREMENT AGE	SALARY	TARGET LUMP SUM AT RETIREMENT	ANNUAL BENEFIT AT RETIREMENT	CURRENT CONTRIBUTION
Owner	48	62	$285,000	$2,850,000	$230,000	$180,000
Spouse	44	62	$30,000	$290,0000	$30,000	$19,000

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.