

The Return of DB Plans

(For Small Businesses)

B E N E F I T E Q U I T Y , I N C .

IMPORTANT THINGS TO REMEMBER:

- DB Plans contributions are a commitment, unlike 401(k) Profit Sharing Plans
- DB Plans look for at least a five year commitment
- Stopping a DB Plan before it matures can cause additional expense
- DB Plans usually benefit the Highly compensated and not the rank & file
- Aggressive or riskier investments are usually not recommended for DB Plans
- The cost to administer DB Plans is considered nominal when compared to the overall benefits provided.
- DB Plans can be added to DC plans like 401(k) Profit Sharing Plans and ESOP's

DB PLANS: AN EXPLANATION

First lets look at the definition:

A DB or Defined Benefit Plan provides a specific pension or stream of payments to an individual when they retire. In other words it's a monthly paycheck one cannot outlive. Although the plan is based on receiving a stream of payments for life, which we can call a "pension" or "annuity, one can also convert the pension to cash. It is usually best to spread out the payments from the pension over time, as not to pay too much in taxes. To obtain a stream of money, it is best to transfer the assets in the plan to an Insurance Company. Insurance Companies can guarantee the payments so you don't have to rely upon yourself to prudently invest the money. Most Trustees hire an investment advisor to as-

sist them in investing the money. Only Insurance Companies are approved to offer a lifetime benefit on a guaranteed basis.



DB's provide a steady stream of payments that you cannot outlive.

How Large is a DB benefit?

The max pension depends on your age, length of time until retirement and your compensation history. The max pension

benefit, as of 2011, is \$195,000 per year at age 65* This means at age 65 you will have to accumulate enough money to pay out \$195,000 a year for your entire lifetime. **Retirement can be age 62 with the same benefit.*

Is the annual contribution flexible?

Since you will be given a recommended contribution every year, it doesn't mean you don't have flexibility. You can also get a range of dollars that your plan's obligation falls under. Think of the contribution as a life insurance premium. If you can't afford the coverage consider reducing the policy's benefit.

WHY ARE DB PLANS ON THE RISE?

Key Factors:

When a small business is consistently profitable, the owners are 50 years of age and older and the employees are younger than the owners (on average), then a DB Plan can make a lot of sense. Many Doctor and attorney groups love DB plans. Cash Balance Plans may also work.

They take the DB benefit and provide a hypothetical account balance per individual.

Since DC plans like (401(k), Profit Sharing, ESOP, etc...) have much lower maximum contributions, (i.e. lower tax deductions), DB plans have become the plan of choice for companies with year end taxable profit. Now

that the DB-DC combination plan is here, firms that have chosen DC types can now add the DB. As a result they increase their deductions and amount of money saved every year.

This information won't make you an expert on DB, but hopefully we have taken the mystery out of the concept.



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