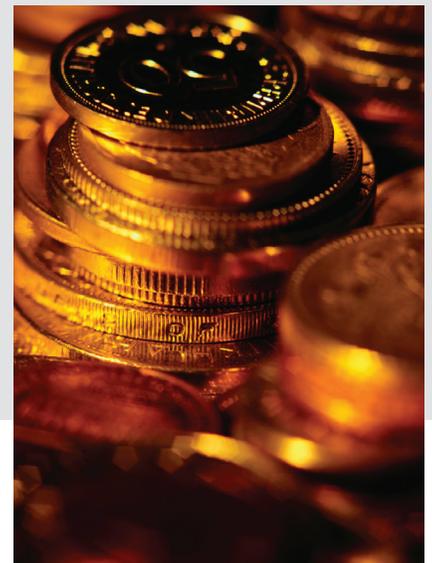


## TRADITIONAL DEFINED BENEFIT PENSION PLANS

- A defined benefit pension plan is a plan that provides a specific benefit to participants at a specified retirement age.
- The plan benefit at retirement is expressed as a monthly annuity, and the plan formula can be expressed as a flat dollar amount per month or a percentage of average compensation.
- The maximum benefit at retirement is an annuity of \$225,000 per year.
- Unlike defined contribution plans, there is no dollar limit on the maximum annual contribution to each participant. Contributions can greatly exceed the \$56,000 defined contribution maximum.
- Contributions are determined actuarially based on how much is needed to provide retirement benefits to participants in accordance with the formula specified in the plan.
- The plan's normal retirement benefit formula can be amended from time to time.
- Historical compensation can be considered.
- Actuarial assumptions and computations are required to determine the level of contribution.
- Defined Benefit plans must cover 40% of the employer's eligible employees.
- Forfeitures of non-vested benefits must be used to reduce employer contributions.
- Increases and decreases in the value of the plan's investments do not directly affect the benefit amounts promised to participants. Thus, the investment risks and rewards on plan assets are borne solely by the employer.
- Retirement savings are accelerated for older employees because greater contributions are required to fund their benefits over fewer years (from date of participation to the plan's retirement age).
- The plan benefits may be required to be protected by federal insurance through the Pension Benefit Guaranty Corporation (PBGC). Plans that cover only an owner (and his or her spouse) and professional service employers with less than 25 participants are exempt from coverage.
- Plan distributions are made at retirement age or termination of employment.
- Distribution options include annuity payouts (single or joint life) and lump sum distributions.



## CASH BALANCE PLANS

- A cash balance plan is a defined benefit plan that defines the participant's benefit in terms that are more characteristic of a profit sharing plan. In other words, a cash balance plan defines the promised benefit in terms of an account balance.
- Participants' accounts are credited each year with a pay credit (such as 5 percent of compensation or a flat dollar amount) and an interest credit (either a fixed rate or a variable rate that is linked to an index such as the one-year Treasury bill rate).
- When a participant becomes entitled to receive benefits under a cash balance plan, the benefits that are received are defined in terms of an account balance.
- These plans have more predictable employee contributions than traditional defined benefit plans.
- Cash balance plans can be easily designed to provide varying levels of benefits to employer defined groups, much like cross tested profit sharing plans.
- Cash balance plans can be combined with profit sharing plans to provide maximum benefits for owners at a manageable level of employee contributions.
- Participants' benefits must be 100% vested after three (3) years of service.

## MONEY PURCHASE PENSION PLANS

- A Money Purchase Pension Plan is a Defined Contribution Plan.
- A money purchase pension plan must provide a definite formula for determining the amount the employer is required to contribute into the plan each year.
- Contributions must be made regardless of net profits.
- In order to change the required contribution for a plan year, the plan must be amended before participants attain the right to receive an allocation.
- Forfeitures of non-vested accounts are reallocated to active participants' accounts and can be used to reduce employer contributions.
- Since the law was changed to increase profit sharing plan limits to be the same as money purchase pension plan limits, these plans are limited in use. They are typically established for the purpose of receiving rollover contributions from another qualified plan.
- Employer contributions are limited to the lesser of 100% of compensation or \$56,000. The current compensation limit is \$280,000. Employer deductions are limited to 25% of eligible compensation.