

Defined Benefit Plans - A Wealth Creation Strategy for High Income Business Owners

Defined Benefit Plans allow the highest deductible contributions of any retirement plan. Current IRS Regulations allow a participant to fund a lifetime pension of up to 100% of compensation, not to exceed \$220,000 as early as normal retirement Age of 62. To do so requires an accumulation of slightly more than \$2,800,000 by Age 62 to provide the benefit, as determined by IRS actuarial tables that consider life expectancy and assumed earnings.

Target Clients

- Small and Medium employers (cost is generally disproportionate in large plans)
- Class Based Profit Sharing works well
- Generally have mix of relatively younger employees
- Wants to fund additional contributions
- Has steady profits

Maximum Contribution Examples

Age	Standalone		Combined Plans		
	401(k) Profit Sharing		401(k) Profit Sharing	Defined Benefit	Combined Plan Total
35	\$ 55,000.00		\$ 35,000.00	\$ 51,814.00	\$ 86,814.00
40	\$ 55,000.00		\$ 35,000.00	\$ 73,564.00	\$ 108,564.00
45	\$ 55,000.00		\$ 35,000.00	\$ 109,620.00	\$ 144,620.00
50	\$ 61,000.00		\$ 41,000.00	\$ 177,960.00	\$ 218,960.00
55	\$ 61,000.00		\$ 41,000.00	\$ 243,530.00	\$ 284,530.00
60	\$ 61,000.00		\$ 41,000.00	\$ 276,352.00	\$ 317,352.00

Based on 2018 Rates and Limits

Funding Method. Contribution examples assume defined benefit contributions will be level through Age 62. For younger owners, it is possible to front-load contributions and fund over a shorter period of time.

Compensation. Contribution examples assume that the business owner has wages of more than \$275,000. What happens if this is not the case? Benefits will be decreased. (proportional decrease is reasonable estimate)

Employee Effect. These examples can be used in both sole owner opportunities and for those businesses that have other employees. For those with employees, the associated employee cost to maximize benefits for the owner will be extremely dependent upon the group demographics.

401(k) Profit Sharing Plan. Examples assume 401(k) deferrals of \$18,500 (plus \$6,000 catchup if over age 50). Profit Sharing when combined with a Defined Benefit is generally limited to 6% of wages.