Defined Benefit Plans

Most people think of them as “pensions,” and while these old-school qualified retirement plans have been around and seemed to be falling out of vogue, a change to the law with the Pension Protection Act of 2006 may be giving them new life.

Defined Benefit Plans calculate an amount owed at a future time. The Department of Labor governs qualified retirement plans and does not care if your company does not have the funds to pay the future benefits when the time comes. Legally, the Department of Labor mandates that a company is *obligated to pay the future benefit*.

If the company does not have the money, it will need to borrow the money in order to stay out of trouble with the Department of Labor. Because of future funding requirements, Defined Benefit Plans are usually funded with guaranteed annuities.

Generally, a Defined Benefit Plan allows for much bigger deductions for employees who are getting a late start on their retirement planning (or who have lost half of their plan assets in a divorce lawsuit).

For example, if you are 50 years old and make over $240,000 per year and you are just starting to make contributions to a newly formed Defined Benefit Plan — you could contribute up to $85,000 per year tax deductible.

Because of the annual costs of the *actuarial review*, Defined Benefit Plans are more costly than the Defined Contribution Plan alternatives. However, if you are over the age of 50 and do not have much in the way of retirement plan savings, the tax deductions may more than offset the additional $1,500-$2,500 per year in administration costs and you get to save more for your retirement.

Is a Defined Benefit Plan the appropriate choice for you and your business? Call (866) 977-2252 for your free, no-obligation consultation, or sign up for a consultation and tell us what your questions are and we will get back to you with the answers soon.