“Carve-Out” Defined Benefit Plans

A “carve-out” plan is fairly easy to understand.

Defined Benefits (DB) plans are unique qualified retirement plans that allow owner/employees to put away significantly more money into a retirement plan than a 401(k) profit sharing plans. However, because there requirements to fund the plan for employees in a non-discriminatory manner, the required contributions to a DB plan to fund for the employee can be prohibitively expensive.

“Carve-out” planning seems to be the next generation of planning to help small business owners create plans to skew the contribution amounts to key employees. The name “carve-out” makes sense because you are carving out the older higher compensated employees from the DB plan and moving them into the 401(k)/profit sharing plan.

That’s where a “carve-out” plan may be valuable. To make the plan more economically viable, place the older more highly compensated non-owner employees in a 401(k)/profit sharing plan (where required contributions for the employees will be low) and the owner and the younger less compensated employees in the DB plan.

If you are interested in putting the maximum away for yourself, as a business owner, and the minimum amount away for your staff, you may want to consider using a “carve-out” plan to accomplish this goal. To learn more, call us now at (866) 977-2252, or sign up for a free consultation or write your questions, and we’ll get back to you soon.