

# DEFINED BENEFIT PLANS

## A Wealth Creation Strategy for High Income Business Owners

Defined Benefit Plans allow the largest deductible contributions of any qualified retirement plan. Current IRS regulations allow a participant to fund a lifetime pension of up to 100% of compensation, not to exceed \$210,000 annually, as early as a normal retirement age of 62. To do so requires an accumulation of slightly more than \$2.6 million by age 62 to provide the benefit based on IRS actuarial tables that consider life expectancy and assumed earnings.

The typical prospect for a defined benefit plan is a small business owner who wants to reduce their income tax burden and is willing to contribute \$100,000 or more to the plan annually for personal retirement benefits. Usually the owner(s) are the old-est in the company while the rest of their employees are younger and there may or may not already be a 401k plan in place. non-owner employees. Some examples are:

- Small Business Owner
- Athlete/Entertainer
- Attorney
- Real Estate Agent
- Physician
- Software Developer
- Independent Consultant
- General Contractor
- Dentist
- Mortgage Broker

Adding life insurance to a defined benefit plan does not reduce the amount available to fund the retirement benefit. Rather when life insurance is added to the plan, the deductible contribution to the plan increases. Life insurance inside the plan provides a survivor benefit to the heirs should the participant die prematurely. The net amount of death benefit protection from the life insurance after deducting the cash value would be paid to the heirs income tax free if the employee reports the cost of insurance on the net amount each year. Let's look at the difference in contributions for the same compensation amounts:

Current Age	Retirement Age	Profit Sharing	Defined Benefit Level Funding*	Defined Benefit Min Funding*	Defined Benefit Max Funding*
45	62	\$51,000	\$94,758	\$29,743	\$155,541
50	62	\$51,000	\$150,497	\$38,250	\$200,030
55	62	\$51,000	\$223,331	\$39,872	\$262,588
60	65	\$51,000	\$230,135	\$62,165	\$322,841

Funding can vary from year to year according to IRS guidelines as long as at retirement the needed amount of money is there to provide the benefit defined. The proposal for a specific employer would show the minimum and maximum funding contribution for each participant.

Note: A third party administrator would provide the plan administrative services, Such services include but are not limited to 1) the determination of funding, distribution amounts and investment strategies, 2) the preparation and delivery of plan documents, forms, statements and reports and 3) other plan administrative services.

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