

# MEETING THE NEEDS OF TODAY'S BUSINESS OWNERS DEFINED BENEFIT PLAN

## **HOW DOES A DEFINED BENEFIT PLAN WORK?**

A Defined Benefit plan is a qualified retirement plan that provides a promised benefit at a specified retirement age, typically between age 62 and 65. Defined Benefit plans can generate larger employer deductible contributions than defined contribution plans. Contributions may be whatever is actuarially required to fund the promised benefit and are not limited to a specific dollar amount. Contributions will typically be larger for those closer to retirement.

## **WHY ADOPT A DEFINED BENEFIT PLAN?**

### **KNOWN RETIREMENT BENEFIT**

A Defined Benefit plan provides a specified benefit for retirement. Benefits in the Defined Benefit plan are defined by the plan document and funded by the employer.

### **LARGE DEDUCTIBLE CONTRIBUTIONS**

Contributions are whatever is actuarially required to fund the promised benefit and are generally larger for workers who are older and higher paid. Benefits are limited to a life annuity of 100% of pay or \$290,000 (2026) commencing between ages 62 and 65.

### **SECURITY**

Benefits are generally protected from creditors under the Employee Retirement Income Security Act (ERISA).

### **TAX ADVANTAGES**

All contributions are fully tax-deductible to the employer and benefits accrue on a tax-deferred basis.



# PLAN FEATURES

## **SPONSORING EMPLOYER**

Any employer may adopt a Defined Benefit plan. The employer may be a sole proprietor, partnership, LLC, S corporation or C corporation.

## **ELIGIBILITY**

Employees enter the plan upon completion of the eligibility requirements selected by the employer. Eligibility requirements are typically the completion of one year of service and age 21.

## **PLAN COMPENSATION**

Plan compensation is used to determine benefits under the plan. Recognized plan compensation is limited to \$360,000 in 2026.

## **VESTING**

Vesting represents the non-forfeitable right to benefits under the Plan. Upon termination of employment, a vested participant is entitled to a benefit from the plan while a non-vested member is not. Defined Benefit plans generally use a graded vesting schedule which fully vests benefits in six years.

# LIFE INSURANCE

Life insurance may be included in a Defined Benefit plan. Life insurance in all qualified retirement plans must comply with the "incidental insurance" rules discussed in Treasury Reg. Section 1.401-1(b)(1)(i). The incidental rules can be applied in one of two ways limiting the insurance death benefit to no more than 100 times the projected monthly retirement income as a pre-retirement survivor benefit, or alternatively IRS Rev. Rul. 74-307 allows up to two-thirds of the theoretical plan contribution to be used to purchase whole life insurance or one third to be used to purchase universal life insurance. Including life insurance provides additional death benefits for the participant on a pre-tax basis. Including life insurance in the plan will lead to a higher required plan contribution.

## ***Taxable "Economic Benefit"***

When life insurance is included inside a pension plan, participants must recognize as taxable income the "current economic benefit" of the insurance provided by the plan (Notice 2002-8, 2002-1 CB 398, Treas. Reg. § 1.72-16(b)). Each participant is currently taxed on the "taxable term cost" of the "pure" life insurance benefit. The "taxable term cost" that is reported by the insurance company will be either the Table 2001 cost or a cost based on the company's alternate term rates.

# PLAN ADMINISTRATION

At Pentegra Retirement Services, we commit the resources to ensure that clients receive the quality administrative support critical to the success of any plan.

## ADMINISTRATIVE SERVICES

- Plan Design and Implementation
- Document Preparation and Filing
- Consulting, Actuarial and Legal Support
- Plan Administration & Recordkeeping
- Compliance Testing
- Government Filings
- Annual Actuarial Valuation Reports
- Benefit Calculations
- Annual Employee Benefit Statements
- Summary Plan Descriptions

## EMPLOYEE COMMUNICATIONS

Effective ongoing employee communications are critical to the success of any retirement program.

Each year employees receive personal statements, illustrating their benefit under the plan.

## PLAN DESIGN

We develop plan designs to ensure the plan is consistent and in alignment with your goals and objectives.

With over 65 years of experience in developing effective retirement benefit programs, Pentegra Retirement Services provides clients with flexible, innovative solutions to help them meet their cost and benefit objectives.

# COMPARING RETIREMENT PLANS

Plan Features	Traditional Defined Benefit Plans	Defined Contribution Plans	412(e)(3) Plans
How it works	Employees typically get a monthly retirement benefit based on years of service and salary in the last three to five years of employment.	Companies contribute a percentage of the employee's earnings each year. Employee account balances are credited with actual investment returns.	Employees typically get a monthly retirement benefit based on years of service and salary in the last three to five years of employment
Who determines how the money is invested?	The employer's designated Trustees, subject to fiduciary responsibility	The employee and/or employer, based on plan provided options	Funds are required to be deposited in level premium annuity contracts and whole life insurance, when insurance is included in the plan. Products must be of the same series
Who bears the investment risk?	The employer	The employee	The insurance company
What if investments have higher-than-expected returns?	Employer funding requirements are reduced and potentially eliminated.	The employee keeps the money.	Employer funding requirements are reduced and potentially eliminated.
Is the benefit portable?	No. employees who leave before retirement receive a fixed benefit at retirement.	Yes. When employees change jobs, they can roll their pensions into an IRA or into their new employer's plan.	No. employees who leave before retirement receive a fixed benefit at retirement

