FREQUENTLY ASKED QUESTIONS

- **Q: Am I required to make a contribution each year?**
- A: Generally, yes. DB plans have a required contribution. After the first few years of a plan, flexibility may be available if the asset return is sufficient. Plan contributions may be reduced or even eliminated in some years.
- **Q: When does the plan have to be funded?**
- A: For deductibility, all contributions must be funded by the due date of the employer's tax return plus extensions. For minimum funding, the plan must be funded within 8 1/2 months after the plan year end.
- **Q: Are there any limits on the contributions?**
- A: Yes. The plan may not fund for an annual benefit of more than $180,000 (indexed), or 100% of average compensation, whichever is less.
- **Q: May I have a Defined Benefit Plan and a 401(k) or profit sharing plan?**
- A: Yes. An employer may adopt both plans at the same time. The maximum that can be contributed for the plans is limited to no more than 6% in the 401(k) plan and the required contribution to the defined benefit plan. This limitation is in addition to any 401(k) salary deferrals. Many employers have adopted both plans to allow for a larger deduction and added flexibility of contributions from year to year.
- **Q: Do I have to pay monthly benefits at retirement to retired employees?**
- A: Monthly benefits are the normal way of providing benefits, but providing a lump sum option is also popular.

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for Employee Benefit Plans

WERNTZ & ASSOCIATES, INC.

DEFINED BENEFIT RETIREMENT PLANS

ACTUARIES, CONSULTANTS & ADMINISTRATORS FOR EMPLOYEE BENEFIT PLANS

PLANNING FOR SECURITY IN RETIREMENT

WHAT IS A DEFINED BENEFIT PLAN?

A Defined Benefit Pension plan (DB Plan) is the oldest kind of retirement plan. The plan is designed to provide for a benefit at retirement based on such things as compensation, length of service and age. The cost of providing these benefits is based on asset return, turn-over and mortality rates. Contributions are made each year to provide for that level of benefits.

The employer assumes the risk of asset return, but also enjoys the rewards of lower costs during periods of high asset returns. The employee enjoys the guarantee of a benefit at retirement with no asset risk.

WHAT ARE THE ADVANTAGES OF A DEFINED BENEFIT PLAN?

- Allows for potentially higher deductions than a profit sharing type plan.
- Can favor the highly paid, long service, older employee.
- May permit benefits to be accrued, during years of higher than expected asset returns, with no contributions.
- Benefits may be funded for service prior to the creation of the plan.

HOW MAY THE BENEFIT BE CALCULATED UNDER A DEFINED BENEFIT PLAN?

There are numerous ways to define the benefit at retirement. Most DB plans give a monthly benefit that is a percentage of compensation. The compensation used may either be on a year by year basis, or the highest years averaged.

- **Based on service.** The benefits provided to plan participants are usually based on a participant's future service, and/or prior service. These years times a percent of compensation create the benefit.
- **Integrated with Social Security.** Those participants whose compensation exceeds the taxable wage base receive an additional benefit. This compensates those participants for the smaller Social Security benefit as a percentage of pay available for them.
- **Flat dollar and other formulas.** The benefit may be a flat dollar amount per year of service, or a flat amount payable at retirement, or may be other formulas that are independent of compensation.
- **Cash Balance Plans.** A DB plan that, to some extent, mimics the features of a profit sharing plan. A hypothetical account is established for each participant.

OTHER FEATURES

Vesting. Retirement benefits can be subject to a vesting schedule. This schedule determines the percentage of the present value of the benefit that will be available to an employee upon termination.

Rollovers. The plan may be designed to accept rollovers from other qualified plans. This feature allows new employees to transfer accounts from a prior employer even before they are eligible for entry into your plan.

Death Benefits. The plan may provide for a benefit that is based on the retirement benefit. This benefit may be greater than the contributions made prior to death.

Benefit Increases. Benefits may be increased retroactively based on past service, and retired employees receiving monthly payments may be given benefit increases.

HOW MUCH DOES IT COST?

Administrative costs for any retirement plan are twofold, the internal cost of the tasks to generate information, and the cost of a plan administrator. We are a fee for service company and our fees are based on the work performed, and not on the asset or contribution levels. We will provide a fee schedule for your plan upon request. Our staff is trained to help minimize the effort required to maintain a first class retirement plan. As the tax laws change, we handle the complexity of the plan administration. In addition, we have alliances with various trust companies and mutual funds to make administration easy for you, the plan sponsor.