



Defined Benefit Plans – The Basics

DEFINED CONTRIBUTION vs. DEFINED BENEFIT

In a defined contribution plan (e.g., profit sharing, 401(k), money purchase) plan contribution amounts are defined or limited by tax law. For example, in 2008 the maximum individual contribution to a defined contribution plan is \$51,000.

A defined contribution plan maintains an “account balance” for each participant. The participant’s benefit is the value of the account balance. The account balance represents the participant’s share of the trust’s value. The participants bear the risk of investment loss in a defined contribution plan because the investment performance of the trust assets directly affects the values of the participants’ account balances.

A defined benefit plan defines the retirement benefit in terms of a **promised benefit** commencing at retirement age in a specific form (e.g., life annuity). The participant accrues that benefit under a formula prescribed by the plan. For example, the participant may accrue a fraction of the promised benefit based on his current years of participation and his expected years of participation at retirement.

Promised benefits are paid from the trust, but the trust is not carved up into account balances for the plan participants. The value of the trust rarely equals the total value of the accrued benefits. The accrued benefits are valued under actuarial assumptions.

The **employer bears the risk of loss** in a defined benefit plan because the investment performance of the assets will affect the employer’s funding requirements; not the value of the participants’ accrued benefits promised by the plan.

Unlike the discretionary employer contribution options offered in a defined contribution plan, employers that choose to offer a defined benefit plan should be aware that **annual funding** will in most cases be **required** to fund the promised retirement benefits.

In many cases, a defined benefit plan will allow annual contributions that are several times those allowed in a defined contribution plan. These higher contribution limits can produce significant tax savings and enhanced retirement benefits for business owners and key employees.

Work...Save...Play!



InWest Retirement Solutions partners with employers and financial advisors to design, communicate and administer retirement savings plans. We pursue innovative solutions that help our clients promote corporate objectives, control costs and give employees needed retirement income security.

OUR SERVICES

Plan Design

We recognize that every employer's objective and financial capabilities are different. We offer customized plan design services to meet the unique needs of each employer. Whether the goal is maximizing benefits for owners and key employees or employee recruitment and retention, our plan architects can build a plan to meet your needs.

Plan Installation

Our clients receive turnkey plan installation services; including plan documents prepared by experienced ERISA consultants and hands-on coordination of existing plan conversions. Our dedicated plan installation team guides you every step of the way.

Plan Communication

The effective communication of your plan is key to its success. Our communication specialists create campaigns that explain benefits in simple terms and spark enthusiasm for the plan. InWest is recognized for our customized communication efforts that both empower and educate plan participants.

Plan Administration

Responsiveness. Accuracy. Full Service. These are some of the core qualities that define us as a company and make InWest a leader in retirement plan administration. Our experience team frees you from the tedium of day-to-day plan administration.

WE SPECIALIZE IN

Retirement Plans

Traditional 401(k) Plans
Safe-Harbor 401(k) Plans
New Comparability Profit Sharing Plans
457/403(b) Plans
Owner-Only Retirement Plans
Defined Benefit Plans
New Comparability Cash Balance Plans
Defined Contribution/Defined Benefit Combo Plans

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