



ACI Advisors Corner

When is the Right Time for Your Client to Adopt a Defined Benefit Plan?

By Pat Byrnes
April 7, 2009

This may sound like an absurd time to consider the adoption of a defined benefit plan. The economy is severely damaged, economists cannot agree on how to fix it and odds are your client has cut back on staff. Furthermore, everyone has had a sharp decline in net worth and business has yet to take a turn for the better.

But consider some of the following:

1. In a profit sharing/401(k) plan the only way to make up plan losses is to have the market recover. In a defined benefit plan losses are made up with deductible dollars.
2. Contributions to profit sharing plans are generally discretionary with limits of \$49,000 in 2009. Defined benefit plan deductions can be roughly \$118,000 for a 52 year old retiring at 62.
3. If the defined benefit plan is covered by the PBGC, that 52 year old could have the \$49,000 Profit Sharing Plan contribution **plus** the \$118,000 defined benefit plan contribution for a total of \$167,000. In addition a catch-up contribution of \$5,500 is available.
4. Historically entrepreneurial clients have looked at both DC and DB plans as tax shelters. The deduction of the contribution was more valuable than the anticipated benefits down the road. Today the shift is to "how do I meet my retirement plan goals?"
5. The typical entrepreneurial firm owner(s) have lost a lot of money in their investment portfolios, their businesses, their homes and other real estate. A defined benefit plan offers a systematic approach to budgeting for retirement in significant ways. These supercharged savings programs can offer hope for the baby boomer business or professional to focus on a desired and attainable horizon.

There are a number of considerations in evaluating the use of a DB plan

1. Make sure you and your client are **clear on the objectives of your existing DC plan and how the objectives could be enhanced by a DB plan.**
2. Make sure that you and your client clearly understand the characteristics of a DB plan in terms of flexibility of contributions to adapt to their business economics.
3. Make sure that everyone involved in the process understands the current demographics and how they may change.
4. Are you willing to stay close to your client, their CPA and the actuarial firm so that changes in circumstances and shifting goals can be dealt with quickly and efficiently?
5. Determine the right type of DB plan: Traditional vs. Cash Balance Plan. Contrary to popular belief cash balance plans may not make sense in all situations. You can achieve the same deduction amounts as well as the use of career average pay formulas at less design, implementation and administrative costs. There are situations where the CB plan is the



perfect fit. Don't sell a plan type. Discover the problem and help your client develop the solution.

The right time to consider adopting a DB plan is when your client has hope for the future of his or her business and is willing to think strategically and act tactically toward that future.

There are big differences between sole proprietors, non professional entities with multiple owners, professional firms with multiple partners, larger professionally managed companies etc. We can help you and your client evaluate their situation and make sure you and your client understand the importance of the plan's design, fees, flexibility and monitoring.

Please let us know if we can help. We have been here for 25 years and are known for our design and compliance expertise.

