General Overview and Highlights of a Defined Benefit Plan

OVERVIEW:

The proposed plan is a Defined Benefit Plan, which, unlike the current and more common Defined Contribution Plan, potentially allows for a substantially greater contribution. Defined Benefit Plans are not restricted to the $41,000/year contribution applicable to Defined Contribution plans; instead they fund for a defined income (benefit) at the participant's retirement. The contribution is based on the "required" contribution to provide the lump-sum dollar amount at retirement age which based on certain interest and actuarial assumptions will provide an ongoing income of up to 100% of the participant's current income (subject to some restrictions).

ADVANTAGES OF DEFINED BENEFIT PLANS:

1. Contributions in excess of $41,000/year are possible.

2. Contributions may be heavily weighted in favor of older highly compensated employees.

3. Provides for maximum accumulation and tax benefits for employees nearing retirement age.

DISADVANTAGES OF DEFINED BENEFIT PLANS:

1. Ongoing contributions are required each year at a level appropriate to provide the expected income at retirement age.

2. Plan investment losses must be reimbursed to the plan to insure the projected retirement income is fully funded.

3. Ongoing administration is more complex and therefore more costly than more traditional Defined Contribution plans.

Highlights of Business Structures Regarding Defined Benefit (and other) Retirement Plans

OVERVIEW:

While the operation of a Defined Benefit or other qualified retirement plan do not change because of business structure, the tax-deductibility and method of income calculation for contribution purposes do vary somewhat.

SOLE PROPRIETORSHIPS, PARTNERSHIPS AND LLCs:

1. Contributions are based on net Schedule C income after contribution minus the 1/2 Self Employment tax deduction.
2. Deduction is taken as a Keogh plan contribution on Form 1040.
3. Self Employment tax is based on both the net Schedule C and the contribution.
4. Loans are available to plan sponsors and their employees. When applicable, participant loans are available to the lesser of 50% of their (PVAB) plan assets (at time of loan) or $50,000. Loans are not available for participants of 412(i) plans.
5. Potential required contributions in excess of Net Schedule C income may not be deductible.
6. Sole proprietorships and partnerships cannot take losses to fund the pension plan.

CORPORATIONS AND SUB-S CORPORATIONS

1. Contributions are based on actual W2 income taken from the corporation.
2. Contributions are deducted on the corporate tax return and therefore never appear on the participant's 1040.
3. Contributions are not subject to FICA or Self Employment taxes.
4. Loans are available to plan sponsors and their employees. When applicable, participant loans are available to the lesser of 50% of their (PVAB) plan assets (at time of loan) or $50,000. Loans are not available to participants of 412(I) plans.
5. All required contributions are deductible; corporations may take a loss to fund the retirement plan.