Defined Benefit Plan Overview & FAQ 2019

Q What is a Defined Benefit Plan?

A A Defined Benefit Plan is a pension plan that, under IRS rules, may allow for much larger annual contributions and deductions than defined contribution plans such as the 401(k) Profit Sharing Plan. The funding rules under the Pension Protection Act of 2006 (PPA '06) allow a Defined Benefit Plan to create a wide, flexible range of deductible contributions to fund retirement and survivor insurance benefits.

Q What are the advantages of the Plan?

A The Defined Benefit Plan provides flexibility in choice of funding vehicles, allowing risk-averse sponsors to choose guaranteed insurance and annuity products. The Defined Benefit Plan requires actuarial certification,which helps ensure the plan is operated within specified IRS guidelines.

Q Is life insurance a permitted investment in a Defined Benefit Plan?

A Yes. The amount of whole life insurance that can be purchased is limited to the amount that can be purchased by a premium less than 66 2/3% of the theoretical contribution. The amount of universal life insurance that can be purchased is limited to the amount that can be purchased by a premium less than 33 1/3% of the theoretical contribution.

Q When does the life insurance need to be removed?

A The life insurance held by the plan is used to fund the pre-retirement survivor benefit. Thus, when participants retire or separate from service, life insurance on the departing participants' lives must be removed from the plan. Generally, the policy may be: (1) surrendered for its cash value, (2) distributed to the participant, (3) purchased by the participant, or (4) exchanged for a policy outside the plan using a "net amount at risk exchange provision." (Please refer to "Beyond Retirement or Separation from Services," Form No. 0010417XX.)

Q Can a "lump sum" distribution be taken from a Defined Benefit Plan?

A Yes, the plan may provide for a lump sum benefit distribution option. However, as with all defined benefit plans, the lump sum limit is defined by IRC 415(b)(2). The IRS defines both the maximum annuity payable and the maximum allowable lump sum payment.

Q How does the IRS view defined benefit plans?

A Tax-qualified Defined Benefit Pension Plans, along with 401(k) Profit Sharing Plans for example, are primary sources of needed retirement income for many retirees.

First-Year Plan Contributions

Participant Age 57 with $200,000+ Average Pay
Normal Retirement Age 65

Life Insurance & Flexible Premium Annuity	Traditional DB
Minimum	**$188,990**
Maximum	**$290,784**

SML Pension Customizer
Whole Life Insurance Face: $3,034,582
Premium: 101,794*
Cash Value at Age 65: 541,400**

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For agent use only. Not for use with consumers.

* Annual Premium
** Guaranteed Cash Value

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