

Defined Benefit Plan

HOW IT WORKS

A Defined Benefit plan is a qualified retirement plan that is designed to provide a participant with a fixed lifetime annual benefit at retirement. The amount of benefit is based on the participant's compensation, age and years of service. The annual contributions are 100% employer funded and are actuarially determined based on a number of facts and assumptions, which may include: anticipated future pay increases, turnover, investment performance, years until retirement and life expectancy.

MOST APPROPRIATE FOR

Defined Benefit plans tend to favor older, highly compensated employees. They are appropriate for any type of business structure, whether incorporated or not. Long-term employees can be rewarded with a substantial retirement benefit. Defined Benefit plans are best suited for companies with significant cash flow to help maximize the retirement benefits to older employees and to help reduce the corporate tax burden.

KEY ADVANTAGES FOR THE EMPLOYER

- Employer contributions are 100% tax deductible and grow on a tax-deferred basis;
- Contributions can be substantially higher than other types of retirement plans;
- Owners' benefits are not dependent upon the level of participation of other employees; and
- Owners have the option of establishing a vesting schedule.

KEY ADVANTAGES FOR THE EMPLOYEES

- The employees do not contribute their own money;
- Contributions on the employee's behalf are not taxed currently to the employee;
- Unlike defined contribution retirement plans, the investment risk lies with the employer. The employee's benefit is fixed and not affected by fluctuations in the financial markets; and
- Many different distribution options are generally available including rolling over assets into an IRA.

WHAT YOU SHOULD KNOW ABOUT DEFINED BENEFIT PLANS

Plan Administration

Defined Benefit plans have complex administration requirements. An actuarial calculation must be done to determine the annual contribution that will be used to fund the future benefits of employees. There is also a required yearly Form 5500 filing with the IRS. In addition, an annual report needs to be sent to the Pension Benefit Guarantee Corporation, but exceptions may apply as to specific reporting requirements. The plan must be established by the last day of the business' taxable year for which contributions will be made. Costs for plan inception and yearly servicing are usually higher since it is a specialized plan, yet those additional costs are often outweighed by enhanced benefits for key employees in the business.



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Defined Benefit Plan

Investments

Investment decisions for a Defined Benefit plan can be made by the trustee or delegated to outside parties. It should also be noted that poor investment performance could result in increased contribution requirements.

CONTRIBUTION LIMITATIONS

For 2010, the maximum retirement benefit is the lesser of 100% of the highest consecutive three-year average compensation or \$195,000, if the normal retirement age is 62 or later. In many cases, an earlier retirement is more beneficial, allowing the owner to retire sooner and take larger tax deductions. Defined Benefit plans can be maintained in conjunction with most other types of plans. If so, there are deduction limits that need to be addressed.

HOW RBC WEALTH MANAGEMENT CAN HELP YOU

Your RBC Wealth Management® Financial Consultant can work closely with you to help you determine if a Defined Benefit plan will work for your business. We at RBC Wealth Management have years of retirement planning experience enabling us to be objective in our recommendations. We have established relationships with several third party administrators that have reasonable costs and provide excellent service.

In addition, your Financial Consultant can offer you and your employees a full range of investment options for your plan.

RBC Wealth Management does not provide tax or legal advice. All decisions made regarding the tax or legal implications of your investments should be made in connection with your tax or legal advisor.

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