
What Flavor Should I Choose?

Determining the appropriate retirement plan design

Prepared by Independent Actuaries, Inc.

Five Centerpointe Dr., Suite 520

Lake Oswego, OR 97035



Goals for Today

- Review difference between DB and DC retirement plans
- Discuss general advantages and disadvantages of different plan types
- Work through several examples where different plan types work best
- Finish in one hour



DC vs. DB Plans

- It's all in the name
- Defined Contribution plans
 - The contribution is the defined element
 - E.g. – Employer contributes 5% of pay for participants each year
 - Amount of savings at retirement is uncertain
 - E.g. – 401(k) plans, profit sharing plans, money purchase plans, SEPs, SIMPLEs

DC vs. DB Plans

- Defined Benefit plans

- The benefit at retirement is the defined element
 - E.g. – Participant will get a benefit equal in value to \$800 per month beginning at age 62, payable for life
- Annual contributions needed to fund that benefit are uncertain

DC vs. DB Plans

■ DC Plan Advantages

- ❑ Appreciated by employees
- ❑ Easy to understand
- ❑ Portable benefits
- ❑ Extremely flexible; contributions are often discretionary



DC vs. DB Plans

■ DB Plan Advantages

- ❑ Substantially higher contribution limits for owners/executives
- ❑ Likely reasonable cost for non-owners and rank and file
- ❑ Greater assurance of achieving retirement goal
- ❑ Wide range of allowable contributions still provides some flexibility
- ❑ Current compensation not necessary to make a contribution



DB Hybrid Plans

- DB plans that have certain aspects of a DC plan
 - More predictable contributions and financial reporting
 - Understood and appreciated by employees
 - Higher contribution limits of a DB plan
- Often paired with a DC plan
 - Can keep existing DC plan, if any
 - Adds flexibility
 - Spreads investment risk
 - Maximizes contribution for business owner

DB Hybrid Plans

- Examples include
 - Cash balance plans
 - Floor offset arrangements
 - Pension equity plans (PEPs)
 - Adjustable pension plans
- There are also DC hybrid plans
 - Age-weighted profit sharing plans
 - New comparability plans
 - Target benefit plans

Motivations for Sponsoring a Retirement Plan

- Traditional motivations

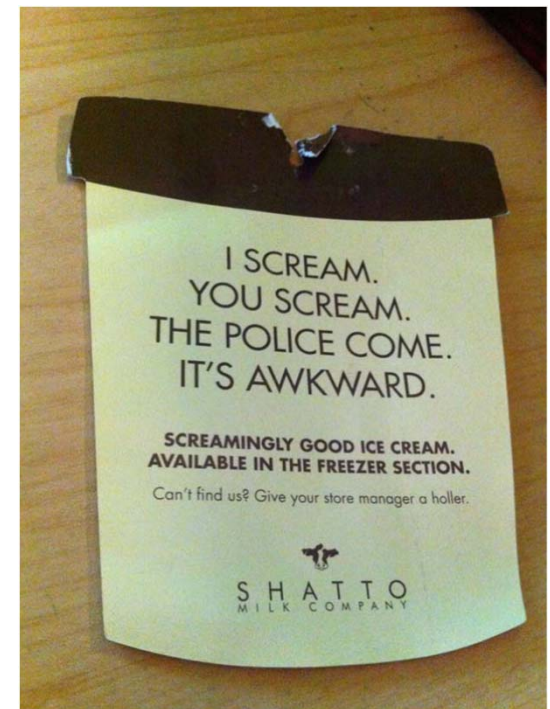
- Attraction/retention
- Competitiveness
- Paternalism

- Alternative motivation

- Allowing the business owner or partnership group to save a large amount of money for retirement in a short period of time, on a tax-deferred basis

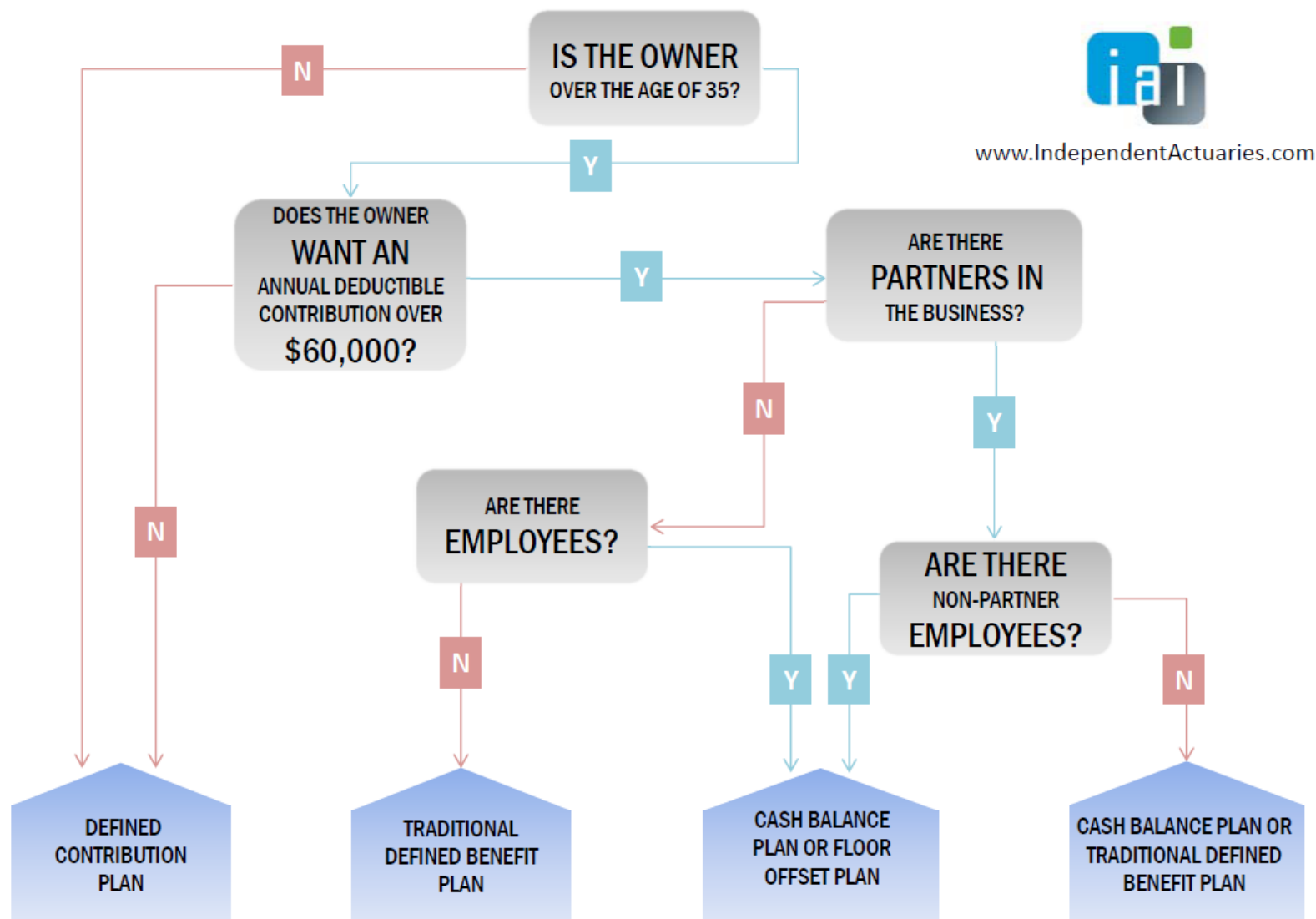
Comparing Plan Designs

- At IAI we design, administer and provide consulting advice to virtually all types of retirement plans
- Four most prevalent “flavors”
 - ❑ 401(k) profit sharing (often cross-tested)
 - ❑ Traditional defined benefit
 - ❑ Cash balance
 - ❑ Floor offset



Decision Tree!

RETIREMENT PLAN DECISION TREE FOR THE BUSINESS OWNER



www.IndependentActuaries.com



How to contact us

Independent Actuaries, Inc.
Five Centerpointe Dr., Suite 520
Lake Oswego, OR 97035
503-520-0848

www.independentactuaries.com

