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# What Flavor Should I Choose?

Determining the appropriate retirement plan design

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# 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

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# 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



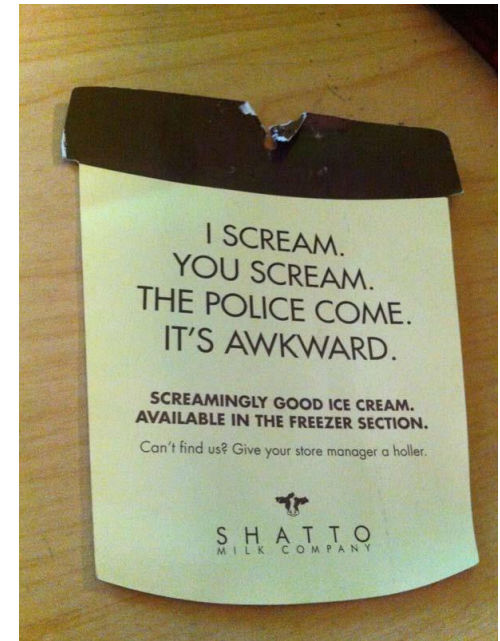
# Motivations for Sponsoring a Retirement Plan

- 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



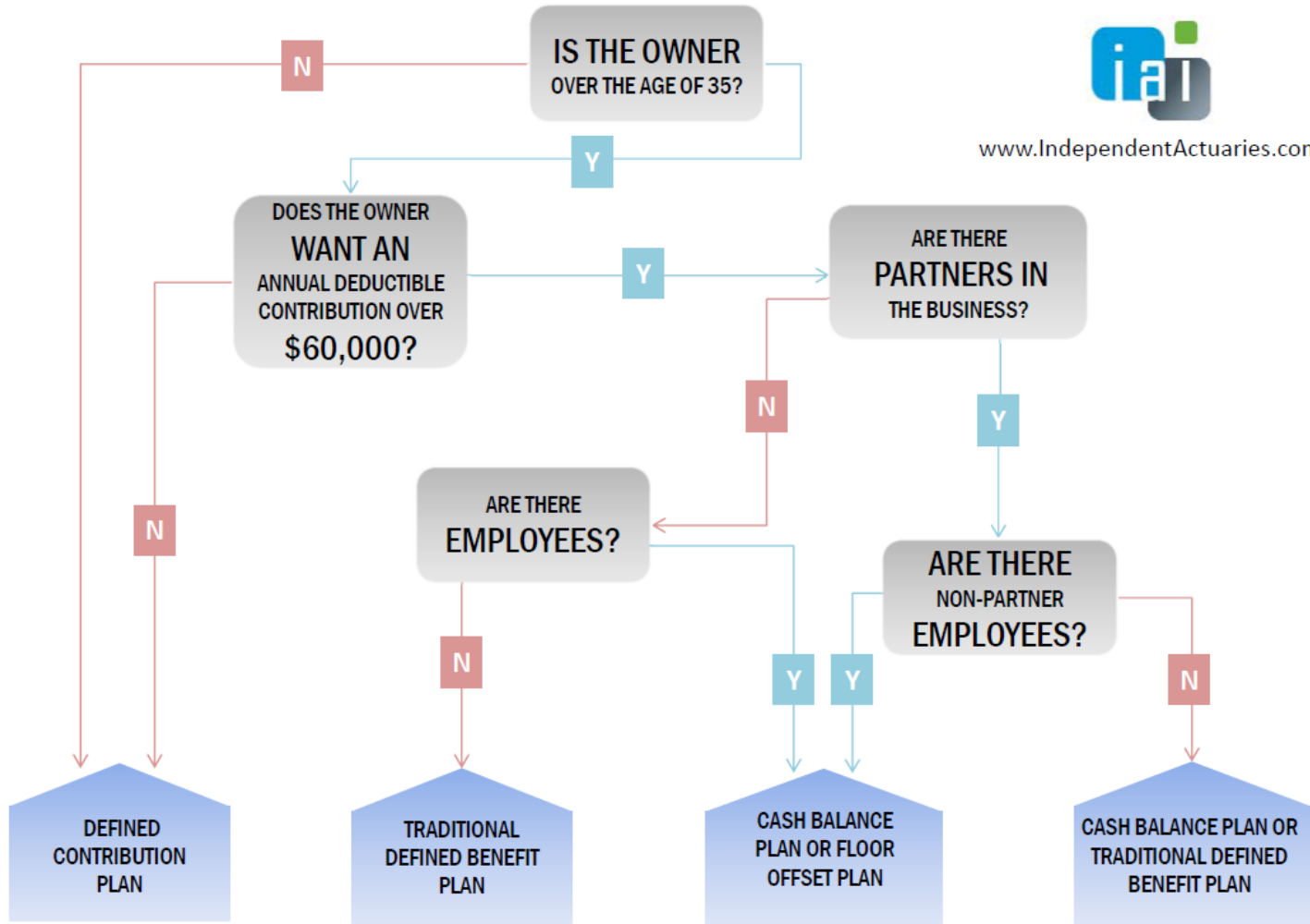
# Comparing Plan Designs

- 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



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