

## **DEFINED BENEFIT PLANS**

Contributions to a defined benefit plan are employer contributions based on what is needed to provide definitely determinable monthly retirement benefits to plan participants.

A defined benefit plan may state the promised benefit as an exact dollar amount (for example, \$100 per month at retirement) or may specify a formula for calculating the benefit (for example, \$10 per month for every year of service with the company, or a percent of a worker's salary times years of service). Actuarial assumptions and computations are required to calculate these employer contributions.

Before 401K Plans these plans were the most popular pension plans in America. They still remain the basic retirement plan for most large corporations.

All other types of retirement plans do not have any limitation on the amount you can earn on your investments. There is also the downside of not earning very much or even losing money. The only guarantee in other retirement plans would be the purchase of fixed annuities through insurance companies.

The Defined Benefit Plan guarantees a monthly income to the plan participants at retirement regardless of the investment results the plan obtains. The plan can be designed to pay the cash equivalent of the future monthly income if a participant terminates employment prior to or at retirement.

These plans can be very beneficial to older employees that haven't saved enough for retirement and need to make up for lost time. Unlike all the other kinds of plans that limit participants to a maximum contribution of \$40,000 a year, the Defined Benefit Plan doesn't impose a dollar limit. Therefore depending on the age and salary of the participant it is possible to contribute more than \$40,000 a year. For example, if you are around 60 years old it is possible to save over \$100,000 a year through this type of plan.