

# 9 COMMON QUESTIONS ABOUT DEFINED BENEFIT PLANS

AND HOW YOU AS A TAX PROFESSIONAL CAN RESPOND TO YOUR CLIENTS



*“You’ve gotta find a way around these absurd taxes!”*

Chances are you have a handful of high-income clients express this sentiment. And there’s a simple answer: “Let me introduce you to a Defined Benefit Plan.”

A Defined Benefit Plan (DB Plan) is a tax efficient way for high-income business owners to accelerate their savings as they near retirement, while experiencing tax relief.

Here are 9 common questions that your clients might pose when you introduce a DB Plan, and the simple answers to get them thinking about the benefits.

## 1

### AM I EVEN ELIGIBLE FOR A DB PLAN? WHAT ARE THE SPECIFIC CRITERIA I NEED TO MEET?

Ideal candidates are business owners, consultants, or independent contractors with a consistent, high income from all combined sources. You also need to be willing to commit to the plan for at least three years and make regular contributions. There are no limits on how much you can contribute on the front end, only a cap of total amount you can have at the end of your plan (\$3.5 million as of 2024). Your contributions can lead to significant tax savings; for example, an annual \$300,000 contribution could save \$105,000 in federal taxes now if you are in the 35% bracket. If your state has income tax too, this is extra tax savings.

## 2

### HOW FLEXIBLE IS THE PLAN IF MY BUSINESS CIRCUMSTANCES CHANGE?

DB Plans are designed to be adaptable. While you want to create a plan initially with a range of annual contributions you are comfortable with (i.e. 180k – 250k per year), the plan can be amended should circumstances arise in your business that warrant a change in the annual contribution amount. The plan can also be terminated early with proper reasoning. The key here is you are in charge of the plan changes, wearing both the hat of the employer and employee.

## 3

### WILL THE TAX BENEFITS OUTWEIGH THE POTENTIALLY HIGHER RETURNS I MIGHT GET FROM OTHER INVESTMENTS?

The tax savings can significantly enhance your net returns. For example, saving \$35,000 in taxes on a \$100,000 contribution allows more of your money to grow tax-deferred, potentially leading to greater overall returns.

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## 4

### I DON'T FULLY UNDERSTAND HOW A DB PLAN WORKS. WHAT IF I MAKE A MISTAKE IN MANAGING IT?

You don't have to manage it alone. You'll work with experienced plan administrators and actuaries who handle the setup and management, ensuring everything is done correctly.

## 5

### I LIKE TO HAVE CONTROL OVER MY FINANCIAL DECISIONS. CAN I CHOOSE HOW THE MONEY IS INVESTED?

You still have control over your investment choices within the DB Plan. The plan allows for diversification and professional management to mitigate risks. Investment strategies can be tailored to balance security and growth according to your risk tolerance.

## 6

### HOW DOES A DB PLAN WORK IF I HAVE A 401(K)?

You can combine a DB Plan with a Defined Contribution Plan, such as a 401(k), to maximize retirement savings and tax benefits. In years of lower profitability, you can focus on funding the DB Plan and temporarily pause contributions to the 401(k). Once profitability improves, resume contributions to both plans, giving you the best of both worlds and turbocharging your retirement savings.

## 7

### HOW DOES THE BENEFIT WORK ONCE YOU'RE RETIRED?

When your DB Plan ends, you receive a lump sum amount. You can roll this into an Individual Retirement Account (IRA) to maintain control over your investments or annuitize it to secure a steady income stream. The choice is yours, giving you ultimate control over your financial future.

## 8

### ARE THE COSTS AND ADMINISTRATIVE FEES OF MAINTAINING A DB PLAN WORTH IT COMPARED TO THE BENEFITS?

The administrative costs, typically ranging from \$2,000 to \$4,000 per year, are outweighed by the significant tax savings. For instance, a \$100,000 contribution can save you \$35,000 in taxes if you are in the 35% federal tax bracket, plus state income taxes where applicable.

## 9

### WHY HASN'T MY CURRENT FINANCIAL ADVISOR MENTIONED THIS PLAN BEFORE? IS THERE SOMETHING WRONG WITH IT?

Many advisors may not be familiar with DB Plans due to their complexity. However, they are IRS-approved and can be highly beneficial for high-income earners, offering substantial tax advantages.

Thanks for your interest in the **Defined Benefit Plan**.  
For more information, please email [info@edgefa.com](mailto:info@edgefa.com).