

DEFINED BENEFIT PLAN EXECUTIVE SUMMARY

January 2009



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The Defined Benefit Plan Advantage

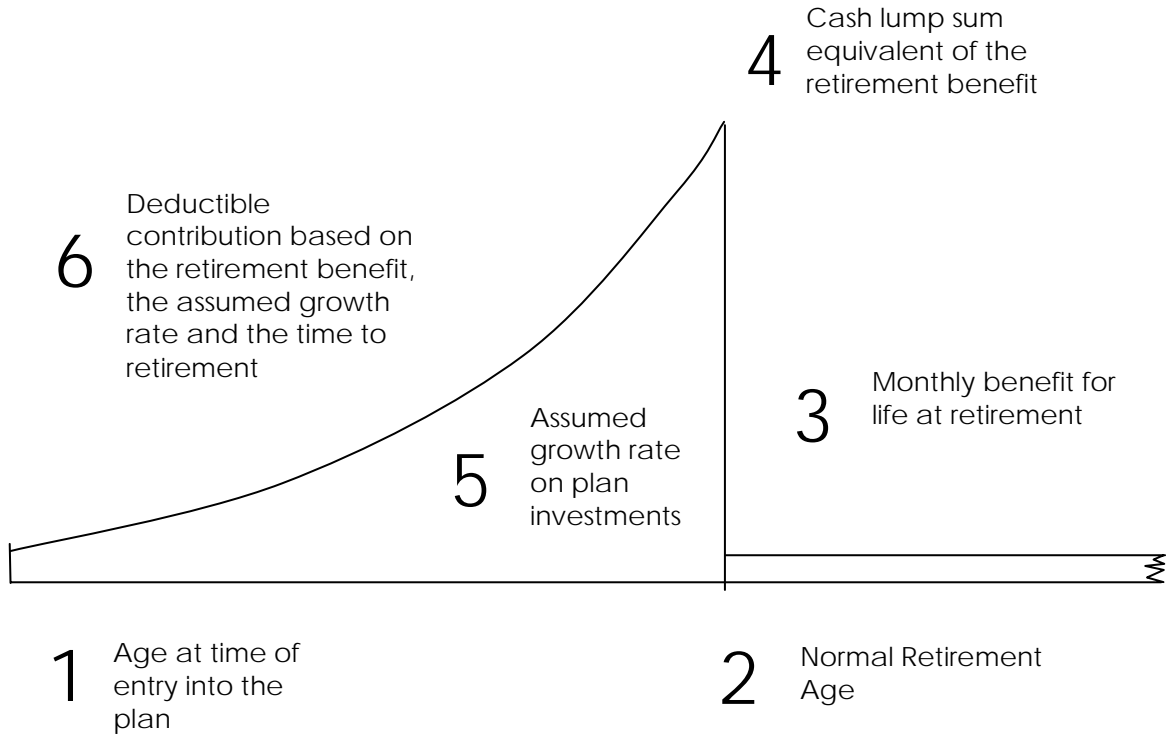
The number one attraction to a defined benefit plan is that the tax deductible contributions for a participant can be higher than the \$49,000 limit of a defined contribution plan.

Each year's contribution is based on the amount to pay the participant up to 100% of income as an annual retirement benefit. For 2009, the maximum annual benefit at retirement is 100% of pay not to exceed \$195,000 (as adjusted by I.R.S. cost of living index). The primary factors that determine the contribution for a participant are; age, length of service with the employer, number of years in the defined benefit plan, and the benefit formula.

For Example:

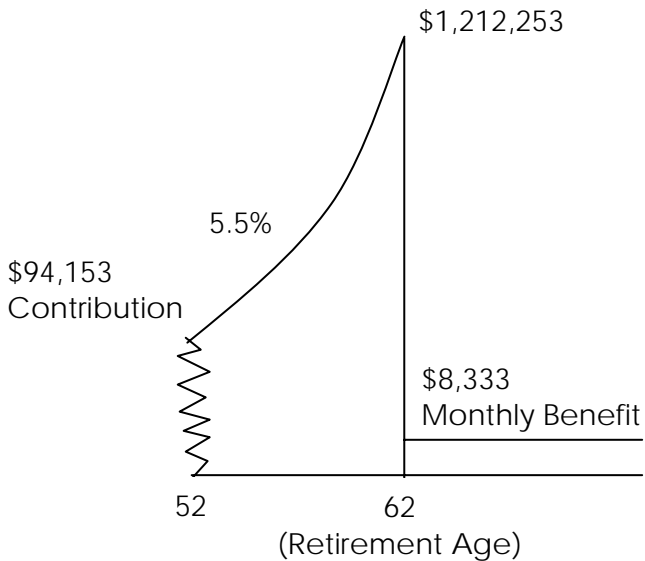
- A 49-year-old manufacturer's representative earning \$125,000 annually will **contribute \$82,863** to his plan for each of the next 10 years.
- A 54-year-old attorney in a sub-s corporation currently pays himself \$45,000 in wages. Because he used to average \$156,000 in wages, the defined benefit plan formula is set to pay a benefit at retirement of \$156,000 per year. The annual deductible **contribution by his corporation will be \$194,527 per year** for the next 8 years to reach the \$1,891,108 needed to pay a \$156,000 annual benefit.
- A 53-year-old part-time real estate agent with a working spouse **contributes all of her \$62,000** of self-employment income to her plan, and will continue to do so for each of the next 7 years.

How Defined Benefit Plans Work



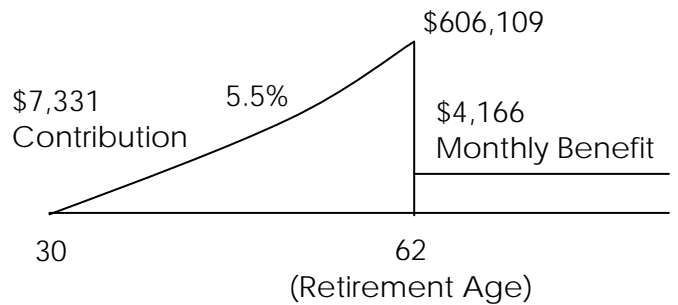
Employee A

\$100,000 Annual Pay (\$8,333 Monthly)



Employee B

\$50,000 Annual Pay (\$4,166 Monthly)



Similarities to Defined Contribution Plans

- Eligibility requirements.
- Vesting schedule options, with forfeitures reducing future employer contributions.
- Deductible contribution for employer.
- Deferred taxable income to employee.
- Distributions may be rolled over to an IRA.
- Any business entity; corporation, partnership or sole proprietorship can sponsor a plan.

Differences to Defined Contribution Plans

- Annual contributions to a defined benefit plan are required.
- Contributions are pooled and invested as one trust, no participant directed accounts are allowed.
- Distributions to participants are based on the present value of the benefit promised at retirement age in the document, not the “hypothetical account balance” or contributions made to the trust.
- The employer not the employee bears the investment risk / reward.
- Trust Fund earnings in excess of 5.5% reduce future contributions in following years, earnings less than 5.5% increase contributions.

Next Step

Polycomp will prepare a free illustration that will analyze the suitability of a defined benefit plan based on your retirement goals. Please contact us at the office nearest you.

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