



# DEFINED BENEFIT AND PROFIT SHARING PLANS... A DUAL APPROACH

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**A Strategy to Help Business Owners Increase Their  
Retirement Savings**

 **TRANSAMERICA**  
INSURANCE & INVESTMENT GROUP



## *Defined Benefit and Profit Sharing Plans... a Dual Approach*

- *Maximize retirement savings*
- *Increase tax deductions*
- *Minimize cost to owner*

Andrew, aged 53, is the owner of HeartRate Inc., a firm that develops and sells medical equipment to doctors specializing in heart transplant surgery.

Andrew's annual salary from his business is \$245,000. His wife also works with Andrew in the business, and receives an annual salary of \$25,000. Andrew also has seven other full time employees. With the exception of one employee who is 48, the rest of the employees are at least 10 years younger than Andrew.

Over the years Andrew has devoted a good deal of his time, energy and finances into building a successful practice. Now he is ready to focus more of his efforts toward saving for retirement.

He currently contributes \$49,000 a year to a profit sharing plan, but is beginning to realize that might not be enough if he wants to achieve his goal of retiring at age 62.

In addition to the \$49,000 annual contribution he makes towards his own profit sharing plan, Andrew also makes annual profit sharing contributions for his wife and all of his employees. In addition to increasing contributions in order to "catch up" on his retirement savings, Andrew is also interested in a plan that gives him the ability to:

- Care for his family in the event of his premature death
- Minimize the costs associated with providing retirement benefits for all of his employees
- Provide a source of guaranteed retirement income
- Protect his retirement assets from creditors
- Participate in growth of stock market
- Use pre-tax dollars to cover personal life insurance needs

After consulting with his professional advisors, it is determined that use of a defined benefit plan and a profit sharing plan in combination is the best method to help Andrew accomplish his objectives. Andrew and his advisors work with a Third Party Administrator who designs the plans, determines the amount Andrew can contribute towards his retirement, and calculates the retirement benefit Andrew can expect to receive from his plan.

## How the Combination of a Defined Benefit and Profit Sharing Plan Works for Andrew

In working with his professional advisors along with an experienced Third Party Administrator, Andrew establishes the two plans for himself and his employees. The defined benefit plan is set up to provide maximum benefits for Andrew and his wife, with smaller contributions for the rest of the employees. It is anticipated that approximately 95% of the contributions for the defined benefit plan will go towards Andrew and his wife.

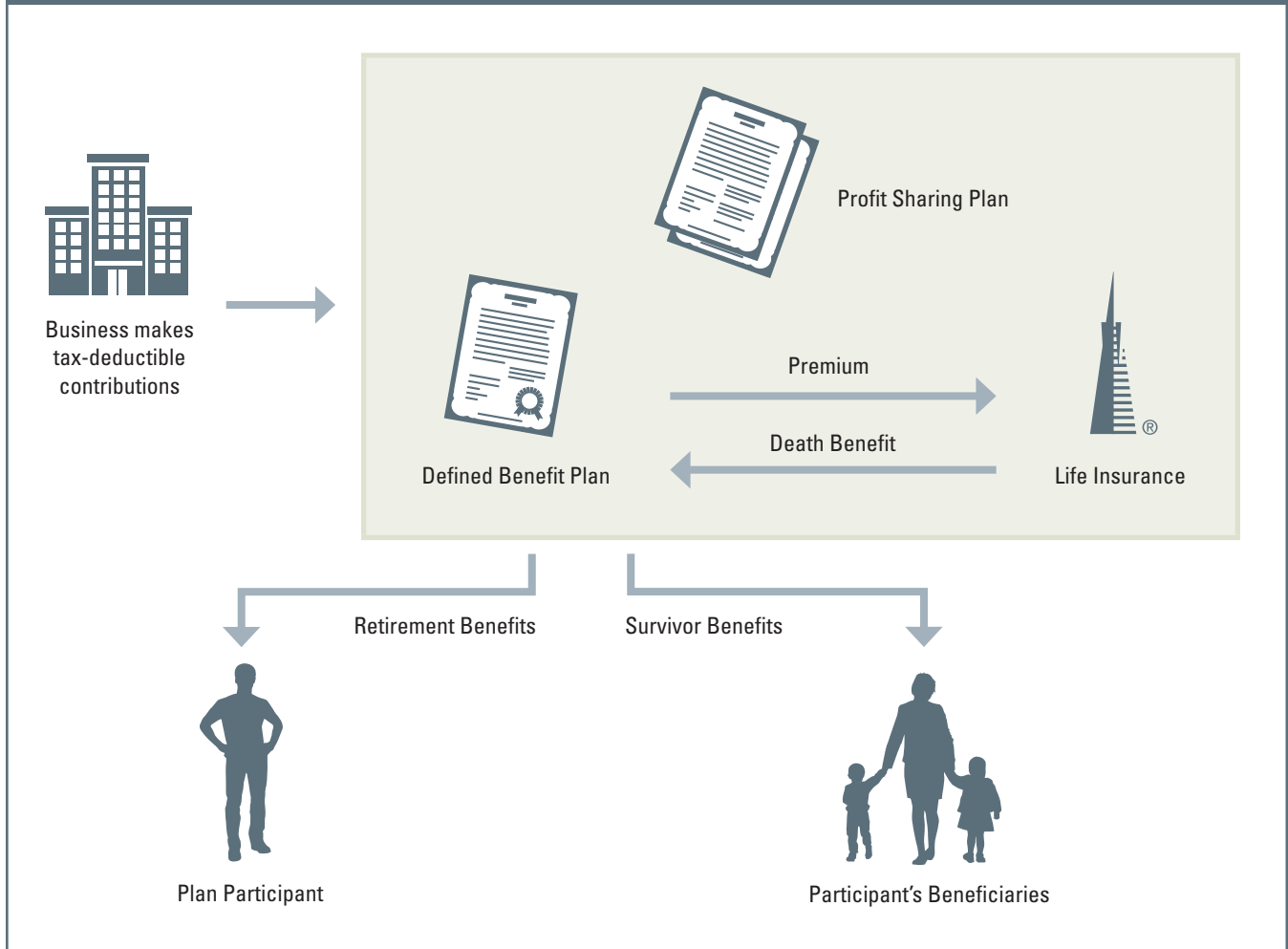
In order to avoid the defined benefit plan from discriminating in favor Andrew and his wife, HeartRate Inc. will also make a safe harbor contribution to the profit sharing plan on behalf of all eligible employees.<sup>1</sup> By contributing to both a defined benefit and defined contribution plan the projected annual contributions to both plans are \$312,000. Approximately 88% of the total contributions (\$275,000) is projected to go towards Andrew and his wife.

Participants	Age	Annual Salary	Previous Year's Profit Sharing Contribution	Contributions with Proposed Combined Defined Benefit/ Profit Sharing Plan
Andrew	53	\$245,000	\$49,000	\$230,805
Wife	52	\$25,000	\$4,940	\$44,315
		<b>Sub-Total</b>	<b>\$53,940 (65% of total plan contributions)</b>	<b>\$275,120 (88% of total plan contributions)</b>
Employee 1	28	\$57,446	\$5,745	
Employee 2	41	\$47,262	\$3,781	
Employee 3	48	\$65,495	\$5,240	
Employee 4	31	\$83,655	\$6,692	
Employee 5	28	\$37,891	\$3,031	
Employee 6	43	\$34,453	\$2,756	
Employee 7	24	\$17,120	\$1,370	
		<b>Sub-Total</b>	<b>\$28,615</b>	<b>\$37,010</b>
		<b>Grand Totals</b>	<b>\$82,555</b>	<b>\$312,130</b>

<b>Increase in contributions for Andrew and wife</b>	<b>\$221,180</b>
<b>Increase in contributions for employees</b>	<b>\$8,395</b>
<b>Increase in total contributions/tax deductions</b>	<b>\$229,575</b>
<b>% increase in contributions for Andrew and wife</b>	<b>410%</b>
<b>% of total contributions for Andrew and wife</b>	<b>88%</b>

<sup>1</sup> Amount required to be contributed into the profit sharing plan to satisfy the non-discrimination provisions will vary from plan to plan, depending on the plan census and information such as age and salary of eligible employees.

## Overview of Combination of Defined Benefit and Profit Sharing Plans



### Retirement Benefit Options

- Receive retirement income from retirement plan
- Roll over plan assets to IRA or other qualified plan<sup>1</sup>

### Survivor Benefits

- Defined benefit plan pays the life insurance death benefit to participant's beneficiaries, portion of death benefit received income tax-free<sup>2</sup>
- Defined benefit and profit sharing plan pay survivor benefits to participant's beneficiaries, in addition to death benefit from life insurance

<sup>1</sup> Life insurance cannot be owned inside an IRA. Plan must surrender life insurance policy for its cash value before rolling plan assets to IRA. Life insurance can be rolled over to another qualified plan, if the plan document allows for the purchase of life insurance inside that plan.

<sup>2</sup> Death benefit amount exceeding the policy's cash value will be paid income tax-free, provided the participant included the cost of insurance protection as taxable income. Additionally, cost of insurance protection taxable to the employee may be treated as basis to be recovered tax-free from plan distributions.



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## What if life insurance is still needed in retirement?

- The plan may distribute the life insurance policy to the employee. The employee pays federal income tax based on the fair market value of the policy
- The employee or his irrevocable grantor trust may purchase life insurance policy from the plan that is a grantor trust. Policy purchase price is based on fair market value of policy

## Mission Accomplished with the Defined Benefit and Profit Sharing Plans Dual Approach!

With the design and implementation of the Defined Benefit and Profit Sharing Plans, Andrew is able to accomplish a variety of goals for himself and family such as:

- Significant contributions for retirement savings
- Large income tax deductions
- Minimizing the costs of providing retirement benefits for all of his employees
- Family protection in the event of death
- Guaranteed income in retirement
- Retirement assets protected from creditors
- Use of pre-tax dollars to cover personal life insurance needs

# Qualified Retirement Plan Fact Finder

Please note that Transamerica Life Insurance Company and Transamerica Financial Life Insurance Company representatives will work with a third-party administrator (TPA) specializing in qualified retirement plans to generate a plan proposal.

Name of business: \_\_\_\_\_

Tax status:  C Corp.  S Corp.  LLC taxed as Corp.  LLC taxed as Partnership\*  Sole Proprietor  Partnership

Date business began: \_\_\_\_\_ Date of incorporation: \_\_\_\_\_

Tax year end date: \_\_\_\_\_ State of issue: \_\_\_\_\_

Approximate contribution desired: \_\_\_\_\_ (percent of payroll or dollar amount)

Current qualified plan in force?  Yes  No

Do the business owners have ownership interests in any other firms?  Yes  No If yes, please supply details on a separate sheet.

First Name	Last Name	Gender	Birth Date	Hire Date	% of Stock Owned	W-2 Compensation	Schedule C or K-1 Income	Annual Hours Worked	Smoker (Yes/No)
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
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\*Single-member LLC is taxed as a sole proprietor for federal income tax purposes.



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