

How a Traditional Defined Benefit Plan Works



Employer

- Employer contributes an actuarially-determined amount sufficient to pay each participant a fixed or defined benefit at retirement.
- Employer contributions are tax deductible.



Traditional Defined Benefit Plan

- Employer contributions are not currently taxable to employee and earnings accumulate tax deferred.
- Investment risk remains on employer. Investments must be diversified and prudent. Both equity and debt investments may be used.
- Retirement benefit is typically defined as a percentage of compensation for each year of service or participation.



Employee

- Employee has a known retirement benefit.
- Maximum retirement benefit is the lesser of \$170,000 per year¹ or 100% of the individual's average compensation for the three highest consecutive years².



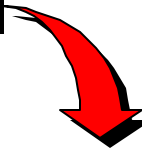
Early Withdrawal

- A 10% penalty generally applies if withdrawals are made before age 59½.
- Some exceptions to 10% penalty are available.
- Employee may borrow from plan within certain guidelines if provided for in plan documents.



Retirement

- Distributions must begin by specified date.³
- Funds may be distributed as lump sum or periodic payments.
- Distributions are generally taxed as ordinary income and may be eligible for 10-year income averaging or rolled over into an IRA.



Death

- The PV of the accrued retirement benefit is usually included in owner's gross estate.
- Proceeds can pass to surviving spouse with payments made over survivor's lifetime.
- Income/estate taxes can severely reduce funds left to non spousal heirs.

¹ These are 2005 limits. This amount is subject to indexing for inflation. Applies when retirement occurs at age 65 or the Social Security full retirement age, if later.

² The 100% is reduced by 10% for each year of service less than 10.

³ Except for more than 5% owners, distributions must begin by the later of (1) April 1 of the year following the year in which the participant reaches age 70½, or (2) the year following the year in which the participant retires.