Defined Benefit Plans for Small Business Owners

A Tax Strategy for Individuals with Self-Employment Income and Owners of 1-5 Person Companies
Defined Benefit Plans – in the News

How Entrepreneurs Can Get Big Tax Breaks For Retirement Savings
“A 52-year-old entrepreneur netting $300,000 could use a one-person defined-benefit pension plan combined with a solo 401(k) to shelter a total of $169,800 from current income taxes...” Forbes, March 2013

Turn Self-Employment Income Into A Pension By Dec. 31 To Beat The Fiscal Cliff
“If you’re self-employed, have had a good year, and want to sock away a lot for retirement, take a lead from a tax pro who advises high net worth clients, and set up a defined benefit plan by year-end.” Forbes Online, December 2012

High-Income Clients Save More With These Underutilized Retirement Plans
“From a short-term standpoint, there’s absolutely nothing that can equal this for me or anyone older with excess income and big taxes...” Financial Advisor Magazine, December 2011

A Pension Plan for the Self-Employed
“Solo pension plans are a great option for entrepreneurs, doctors, and real estate agents who want to slash their taxes and turbo charge retirement savings.” Kiplinger’s Retirement Report, August 2011
Today’s Presenter

- Dempster “Bobby’ Cherry
- D’Arcy Wealth Management
- Wealth Manager
- dcherry@darcywealthmanagement.com
- 619.251.7993
Agenda

- The Personal Pension Plan
  - Defined Benefit Plans At a Glance
  - Compared to Other Retirement Plans
  - The OnePersonPlus® Program from Dedicated DB

- Ideal Financial Situations

- Meeting Your Needs
  - Eligible Compensation
  - Key Dates
  - Fees
  - Opening a DB Plan
  - Follow through
Defined Benefit Plans at a Glance

- Qualified retirement plan approved by the IRS
- Contributions are tax deductible
- Highest available contributions and tax deductions of any qualified retirement plan
- Contributions are based on:
  - your age
  - income
  - years to retirement
Comparison of Retirement Plans

Defined Benefit (DB) Plans May Allow Clients to Contribute Significantly more Earned Income than other Retirement Plans

Hypothetical Example: Maximum annual contribution limits in 2016 for a business owner age 52, earning $265,000 W-2 income annually, retiring in 10 years

Assumes 5-7% funding rate for Defined Benefit Plans

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Maximum Contribution Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIMPLE</td>
<td>$23,450</td>
</tr>
<tr>
<td>SEP</td>
<td>$53,000</td>
</tr>
<tr>
<td>Individual 401(k)</td>
<td>$59,000</td>
</tr>
<tr>
<td>DB</td>
<td>$182,200</td>
</tr>
<tr>
<td>DB + 401(k)</td>
<td>$222,100</td>
</tr>
</tbody>
</table>
Defined Benefit Plans are Goal-oriented

- Goal or “benefit” represents the amount of retirement wealth the plan will provide annually at retirement age

- Benefit is established when plans are opened
  - Based on age, income and years until retirement
  - Capped at $210,000 per year (for 2016)*

- Employer commits to achieving the goal through regular, annual contributions large enough to meet the goal

- Retirement age is typically set at age 62 or older

- Plan can be amended to change the goal
OnePersonPlus from Dedicated DB
A Great Tax Strategy for Clients Age 40+

- Typical Plan Sponsors
  - Small business owner, age 40+
  - Owner + up to 4 employees
  - Expect to contribute 5 successive years

- New Plans
  - Avg. annual contributions: $120,000+*
  - Avg. term: 8+ years
  - Integrates with a solo 401(k)

- Dedicated DB’s Service
  - Prototype plan documents eliminates cost of actuary, tax attorney
  - Easy to open, efficient to administer – 2-page adoption agreement, simplified forms, pre-filled annual census
  - Set up fee and annual administration fee
  - No administration fees based on size of your account

- You and Your Financial Advisor Select the Investments

* Based on 2015 first year contributions to Dedicated Defined Benefit Services DB plans.
Dr. Charles, Age 52
Wants Maximum Deduction

- Annual earnings: **$450,000**
- Maximum DB+ 401(k) contribution for 2016: **$222,100**
  - Contribution to DB Plan: **$182,200**
  - Contribution to 401(k): **$39,900**
- Annual tax savings: **$84,300**
  - Combined marginal tax rate of 38%
- DB Accumulation at age 62: **$2.54 Million**
  - 10 years, 5 - 7% rate of return
- Annual DB Benefit: **$210,000**
The Impact of Age on Contribution: The Older, The Better

Doctor Charles
- Age 52
- 10 Years to Retirement
- Compensation: $450,000
- DB Contribution: $182,200
- Annual Benefit at Retirement: $210,000

Doctor Tim
- Age 35
- 27 Years to Retirement
- Compensation: $450,000
- DB Contribution: $70,600
- Annual Benefit at Retirement: $210,000

Copyright 2016 Dedicated Defined Benefit Services, LLC.
Married Business Partners, No Employees

Paul, Age 60, Mary, Age 58

- 5 years from retirement
- W-2 Income: $530,000 ($265,000 each)
- Total annual DB contribution: $426,000
  - $208,000 towards Paul’s retirement
  - $218,000 towards Mary’s retirement
- Annual combined income tax savings: $161,800
- Accumulation at retirement:
  - Paul: $1.18 Million
  - Mary: $1.24 Million
Spouse Has Self-Employment Income

Susan, 60, is married to a high-income earning executive, and they don’t need her income to maintain their lifestyle. They want to defer current taxes as much as possible.

- Annual self-employment earnings: $100,000*
- DB contribution for 2016: $80,000
- Annual tax savings: $30,400
  — Combined marginal tax rate of 38%
- DB Accumulation at age 65: $457,000
  — 5 years, 5 - 7% rate of return

* High 3-year average, after payment of self-employment taxes
Kumar, Age 48, Engineer

- 2016 W-2 earnings: $185,000
- Maximum DB contribution for 2016: $136,600
- + 401(k) contribution for 2016: $29,100
- Total deduction in 2016: $165,700
- 2016 tax savings: $62,900
  - Combined marginal tax rate of 38%
- DB Accumulation at age 62: $2.24 Million
  - 14 years, 5 - 7% rate of return
- Annual DB Benefit: $185,000
Eligible Compensation for a DB Plan

<table>
<thead>
<tr>
<th>Entity Type</th>
<th>Source of Income</th>
<th>Compensation for Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation</td>
<td>W-2 income</td>
<td>W-2 income</td>
</tr>
<tr>
<td>S-Corporation</td>
<td>W-2 + Schedule K-1</td>
<td>W-2 income only</td>
</tr>
<tr>
<td>Sole Proprietorship</td>
<td>Schedule C (net profit)</td>
<td>Earned Income (calculate) *</td>
</tr>
<tr>
<td>Partnership</td>
<td>Schedule K-1 (net profit)</td>
<td>Earned Income (calculate) *</td>
</tr>
</tbody>
</table>

Limited Liability Company (LLC) — compensation for plan depends on how LLC is taxed. See above for partnership or corporation rules.

Employees, other than owners, are paid W-2 income for all entity types.

* Earned Income = net profit minus 1/2 self employment tax minus plan contribution. Deductions for sole proprietors and partners are limited to net profit minus 1/2 self-employment tax.
Key Dates

- DB Plans must be opened by the end of your fiscal year, for most businesses that will be December 31st.

- The Investment Account will be opened once the Adoption Agreement is signed. If you open the plan before year end, we recommend investing no more than 50% of the assets before you have your final year-end income statement.

- The investment account must be funded when taxes are filed but no later than eight and a half months after the end of your fiscal year.
First Year Fees

Defined Benefit Plan

- Plan Design and Documentation Preparation Fee: $1250 for one person plan
  - $250 per additional participant
- Annual Administration Fee: $1950 for one person plan
  (includes Form 5500, Schedule SB, and AFTAP filings)
  - $150 per additional participant

OR

Defined Benefit & 401(k)

- Plan Design and Documentation Preparation Fee: $1450 for one person plan
  - $250 per additional participant
- Annual Administration Fee: $2500 for one person plan
  (includes Form 5500, Schedule SB, and AFTAP filings)
  - $300 per additional participant
Establishing a Plan

1. We can run a feasibility proposal for you
2. Bring your accountant into the discussion early
3. Once the plan meets your objectives, we’ll complete a Plan Set-up Questionnaire
   - Send signed Questionnaire to Dedicated DB
   - With Plan Design and Documentation Preparation Fee
4. We’ll send you an Adoption Agreement to sign
5. You can begin to fund the investment account