

Tiered Defined Benefit Pension Plans

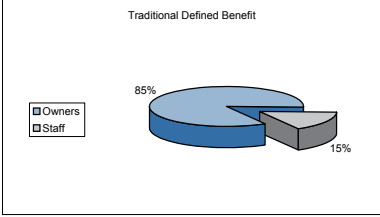
A new trend in plan design for small businesses is to provide owners, and certain key employees, with benefits at a higher rate than other employees (so-called "Tiered" Defined Benefit plans must satisfy sophisticated non-discrimination testing techniques). A "Tiered" Defined Benefit plan design may allow these owners to fund for their optimal benefit, while controlling retirement benefit costs for employees.

The Tiered Defined Benefit plan allows the employer to separate employees into different groups (or tiers). Each tier may have a different benefit formula subject to non-discrimination testing requirements. This type of plan allows the owner to specifically tailor the plan to the goals of the business and reward certain employees at higher levels than others. The tier groups can be determined based on a number of factors including: job description, length of service, performance goals, etc.

Defined Benefit Plan Traditional vs. Tiered Benefit Formulas							
	Age	Salary	Employee Group	Traditional* Formula	% of Contribution	Tiered** Formula	% of Contribution
Owner	55	\$245,000	A	\$160,649	72.39%	\$160,655	80.19%
Spouse	50	\$50,000	A	\$27,000	12.17%	\$27,000	13.48%
Employee 2	45	\$40,000	B	\$16,195	7.30%	\$4,535	2.26%
Employee 3	40	\$30,000	B	\$7,897	3.56%	\$2,948	1.47%
Employee 4	35	\$25,000	B	\$4,483	2.02%	\$2,008	1.00%
Employee 5	30	\$20,000	B	\$2,514	1.13%	\$1,408	0.70%
Employee 6	25	\$20,000	B	\$1,795	0.81%	\$1,005	0.50%
Employee 7	21	\$20,000	B	\$1,384	0.62%	\$775	0.39%
Total				\$221,917		\$200,334	

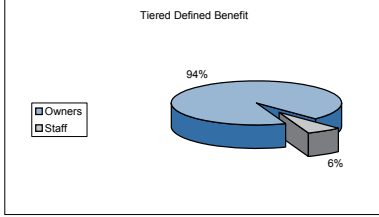
* Formula: 200% of average monthly compensation, reduced for years of participation less than 25.

** Formula: 8% of compensation times years of participation for Group A, flat-dollar-benefit of \$133.33 times years of participation for group B.



Traditional Defined Benefit

85% Owners, 15% Staff



Tiered Defined Benefit

94% Owners, 6% Staff

The adoption of a Tiered Defined Benefit plan can have tremendous advantages for the small business owner. However, employers should understand that contributions are actuarially determined each year and not at the discretion of the employer. Thus, you must carefully study the choice of a Tiered Defined Benefit plan as well as its design.

Owner Advantages

- Larger contributions. Tiered Defined Benefit plans allow employers to fund much larger contributions than Profit Sharing or 401(k) plans. Employers can currently contribute to provide a maximum annual benefit of up to \$195,000, per participant.
- Tremendous tax savings. Because defined benefit plans allow for larger employer contributions, employers receive larger tax deductions.
- Flexibility with an add-on 401(k) plan. An add-on 401(k) Profit Sharing plan can allow even greater contributions and funding flexibility.

Employer Candidate

- Business owner that is at least age 50, and 10 years older than most of the employees.
- Business with stable cash flow to meet annual funding obligations.



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