



CBIZ Actuarial & Benefit Consultants

Defined Benefit Plan Design & Implementation

Your business is all about people. At CBIZ Actuarial & Benefit Consultants, so is ours. Our goal is to work with you to develop a successful retirement program that meets **your** objectives and allows you to attract and retain the quality employees you need to be successful.

CBIZ Actuarial & Benefit Consultants provides a full range of Defined Benefit Plan services. Our focus is to help you understand how a defined benefit plan works, design the best plan for you and assist you with its ongoing administration. We will:

- Work with you to determine your objectives with respect to the plan and to help you understand the effects of the plan on the company and its employees [[Retirement Plan Questionnaire](#)]
- Design a plan that best fits your objectives taking into account existing or prior retirement plans. We will help you to decide what type of defined benefit plan best suits your needs, whether it be a traditional defined benefit plan or [cash balance plan](#) or whether a [floor offset arrangement](#) is right for your situation.
- Prepare the documentation necessary to implement your plan, including drafting the plan documents, summary plan descriptions, required procedures and Determination Letter filing, if necessary.
- Provide the administrative services that are required to maintain the plan and ensure its smooth operation, including:
 - Preparation of the annual actuarial valuation and annual certifications.
 - Preparation of regulatory reporting and disclosures including the required Form 5500, Annual Funding Notice or Summary Annual Report, and PBGC filings, if required.
 - Preparation of required compliance testing, including non-discrimination, coverage and limit testing.
 - Preparation of year end financial statement disclosures, if required.
 - Preparation of annual individual benefit statements for active participants.
 - Preparation of individual benefit calculations.
 - Preparation of required minimum distribution calculations.
- Project future funding and expense costs, if requested.
- Provide ongoing technical and administrative assistance, including consultations regarding fiduciary issues, representation before the IRS and DOL, and other compliance issues as they may arise. In addition, we will periodically visit with you to make sure that the plan continues to meet your objectives.

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Frequently Asked Questions about Defined Benefit Plans

What is a defined benefit pension plan?

Under a defined benefit pension plan, the employer agrees to pay a monthly benefit (calculated under a formula outlined in the plan) at retirement age. These payments are funded over the employee's working life through deductible contributions by the employer.

How is the contribution amount determined?

An enrolled actuary must perform a valuation of the plan to determine the benefits accrued under the plan and the contribution amount required for the plan year. The valuation is prepared taking into consideration each participant's credited service, compensation history, and accumulated plan assets as of the valuation date.

What effect does the investment return on the plan's assets have on the plan's funding?

As the plan pays the participants a "fixed" or "defined" benefit at retirement age, the accumulated assets in the plan do not change the benefit due to each participant. Therefore, if the actual return on the plan's assets is less than expected, higher employer contributions are needed to make up for the shortfall. Conversely, if the actual asset performance is greater than the expected return, required contributions could be decreased. In other words, in a defined benefit plan the investment risk is borne by the employer.

What effect does a change in a participant's compensation have on the participant's benefit and ultimately on the employer's contribution to the plan?

Generally, the benefit formula under the plan includes compensation as a factor. As such, an increase in compensation would generally increase a participant's benefit at retirement and therefore increase future funding. However, a decrease in compensation would only reduce future funding if the participant's projected retirement benefit is reduced. How the plan is designed will dictate the true effects of compensation changes.

How flexible is the annual contribution requirement?

The amount of the annual contribution for a defined benefit is not discretionary, but is determined each year by an actuary. A defined benefit plan must comply with IRS minimum funding requirements, and the plan sponsor must contribute an amount annually that meets the annual minimum required contribution. Generally, the minimum contribution is equal to the value of the benefits to be earned during the year. In addition, if the plan's assets are less than the plan's liability, the minimum contribution will also include a portion of this "underfunded" amount.



What is the maximum contribution to a Defined Benefit Plan?

The maximum annual tax-deductible contribution to a Defined Benefit Plan will vary depending on several factors, including the value of the plan's liabilities, the value of the plan's assets, the plan's minimum funding requirement, etc. In addition, deductibility limits will be dependent on whether both a defined contribution plan and a Defined Benefit Plan are maintained.

When is the contribution by the plan sponsor required to be made?

The contribution for the plan year is required to be made by the earlier of a) the extended due date for filing the sponsor's tax return for the applicable tax year or b) 8½ months after the end of the plan year.

How long do I need to maintain the plan?

All qualified retirement plans must be intended to be permanent. However, it is possible to terminate the plan. If there is no legitimate business reason for termination (i.e., cessation of business), the plan should be maintained for a minimum of three to five years. The plan's benefit formula can, however, be modified as long as the modification does not discriminate in favor of Highly Compensated Employees or reduce a participant's benefit accrued to date.

What if I have had a Defined Benefit Plan before?

If the employer has sponsored a Defined Benefit Plan before, the benefits from all plans will need to be considered in determining the maximum benefits allowable under a new plan.

What if I have employees?

Generally, all employees who meet certain age and service requirements must be considered for purposes of satisfying the minimum coverage requirements and non-discrimination requirements. The plan must cover a cross-section of all employees and benefits must be accrued in a manner that does not discriminate in favor of "highly compensated" employees. In addition, a pension plan must benefit at least enough employees to satisfy the minimum participation requirement. It is important to consider your employee population and the related costs before implementation.

Does the benefit formula have to be uniform for all employees?

No, the benefit formula is not required to be uniform for all employees. A plan may provide for different benefit formulas for different classifications of employees; however, the different formulas must pass non-discrimination testing each year. In addition, the IRS has stated that the plan must provide at least a minimum level of "meaningful" benefits to satisfy minimum participation.



What if I own businesses other than the one that would sponsor the plan?

Qualified retirement plans are subject to rules that require consideration of all the employees of the “employer”. The “employer” for this purpose includes all businesses in a controlled group or affiliated service group. For this reason, common ownership must be considered before implementing a plan.

How is a participant’s benefit determined?

Generally, a participant’s benefit is determined based upon a formula contained in the plan. There are two common methods of structuring the benefit formula in a plan:

- **Traditional Formula.** A traditional formula takes into account the participant’s age, compensation and years of service with the employer or while the employee is a participant in the plan. For example, the participant’s benefit at retirement age could be equal to 1% of the participant’s final 10 year average pay multiplied by the employee’s service not to exceed 30 years.
- **Cash Balance Formula.** A cash balance plan maintains hypothetical cash balance accounts for each participant by adding contribution credits (e.g. 5% of pay) and interest credits. The interest credits are specified in the plan document (e.g. 4%), not necessarily based on actual asset performance. Thus, the sum of the cash balance accounts doesn’t necessarily equal the value of the plan’s assets. If the hypothetical accounts exceed the plan’s assets, future contributions are higher than contribution credits, and vice versa. [See Cash Balance Plans](#)

What happens if the laws affecting Defined Benefit plans are changed?

Should the laws affecting Defined Benefit plans change, it may be necessary to amend the plan or even re-consider its design. CBIZ Actuarial will assist you as necessary.

What is a “Floor-Offset” arrangement?

A “Floor-Offset” arrangement guarantees a minimum benefit or floor, which participants cannot fall below. The minimum benefit is offset or reduced by the value of another benefit (e.g. profit sharing plan), but the net benefit from the Defined Benefit Plan cannot be less than zero. If a participant’s offset exceeds the floor benefit, then they receive no benefit from the Defined Benefit Plan, otherwise the Defined Benefit Plan provides a net benefit that equals the floor minus the offset. [[See detailed explanation of Floor Offset Arrangements](#)]