What is a Defined Benefit Plan?

Every American worker participates in a Defined Benefit Pension Plan.

It's called Social Security. The Social Security system promises those that contribute to it for a specified number of years will receive a monthly benefit at retirement. The employee receives that monthly benefit, guaranteed, for as long as they live. While most Defined Benefit Plans in the corporate sector do not require employee contributions, the concept is the same. A Defined Benefit Plan is a qualified retirement plan under which a retiring employee will receive a guaranteed benefit. The plan may state this promised benefit as an exact dollar amount, such as $100 per month at retirement for life. Or, more commonly, it may calculate a benefit through a plan formula that considers such factors as salary and service - for example, 2 percent of salary for each year of service with the employer. The maximum annual benefit that a participant can receive is limited to the lesser of a participant's annual salary, or a specified amount, indexed for inflation. For Plan Years ending in 2025, that maximum benefit amount is $280,000, or about $23,333 per month. Defined Benefit Plans commit employers to pay the benefit amount when the employee retires, either in a lump sum or a monthly annuity. Each year, the employer contributes an amount necessary to fund for the payment of that benefit at some future date. The cost is based on a set of assumptions, including interest, turnover and life expectancy. Contributions to the plan and accumulated earnings from plan investments are used to pay the benefits as provided in the plan. If the assets of the plan earn less than the assumptions, the employer must make up the difference. Earnings that are greater than the assumptions may cause a reduced deductible contribution in future years. Some Defined Benefit plans are federally insured by the Pension Benefit Guaranty Corporation, or PBGC, and therefore must pay annual insurance premiums beginning at $1061 per participant. Although Defined Benefit Plans have fallen out of favor because they require employers to make contributions every year, regardless of their own profitability, they still have their place in stable businesses that wish to fund a large amount of money in a short amount of time.

Ideal Candidates Include:

- **Professionals seeking a tax deduction of more than $70,000 or making more than $350,000 per year.**
- **Highly profitable companies of all shapes and sizes.**
- **Successful family or closely held businesses.**
- **Law firms, CPA groups, Medical groups and other professional practices.**
- **Older owners who need to squeeze 20 years of retirement savings into 10.**

2025 Maximum Contribution Limits – 401(k) Profit Sharing & Defined Benefit Plans

Age	401(k) Only	401(k) with Profit Sharing	Potential Defined Benefit Contribution
60-65	$ 31,000	$ 77,500	$387,500
55-59	$ 31.000	$ 77,500	$328,500
50-54	$ 31,500	$ 77,500	$249,500
45-49	$ 23,500	$ 70,000	$190,500
40-44	$ 23,500	$ 70,000	$158,500
35-39	$ 23,500	$ 70,000	$133,500
30-34	$ 23,500	$ 70,000	$114,500

A Few Words about the PBGC

The Pension Benefit Guaranty Corporation is an independent agency of the United States Government that was created to encourage the continuation and maintenance of private sector Defined Benefit Pension Plans, provide timely and uninterrupted payment of pension benefits and keep pension insurance premiums to a minimum. The PBGC pays monthly retirement benefits, up to a guaranteed maximum, for covered pension plans that cannot pay monthly promised benefits due to the bankruptcy or insolvency of the sponsoring organization.