

# The Resurrection of Defined Benefit Plans

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The signs are hard to discount. A recent PLANSPONSOR survey of plan providers shows that defined benefit (DB) plans have increased significantly. Up 22 percent between 2015 and 2017, DB plans are once again in demand. In fact, cash balance plans increased a surprising 78% within the same time period.

Perhaps it's the appeal of guaranteed lifetime income that is not present within the 401(k) or other retirement structures. That could be enough to be fueling renewed interest by employers seeking better options for their plan participants.

Another possible factor fueling the return of the DB plan – the Pension Protection Act of 2006 created the framework that “resolves legal uncertainty surrounding cash balance” plans. In particular, the Act allows such plans to tie interest credits to market returns. DB plans now account for nearly 21 percent of all DB plans.

Whatever the appeal, DB plans are indeed back and, judging from the steady increase in DB plans as reported by the PLANSPONSOR survey, they are here to stay.

## DB Plans in Action

Part of the DB plan's appeal is its ability to act as a tax shelter. Smaller entities have begun flocking to the DB market because of its tax advantages, as well as how a DB plan can act as a pension.

Approved by the IRS, DB plans have several advantages for organizations. Contributions are tax deductible and based on age, income, and years left to retirement, and; DB plans offer higher contributions and tax deductions – the highest available in the qualified plan arena.

No doubt these advantages have helped resurrect the DP plan market among a wider demographic. There are other advantages to consider, as well as some unique disadvantages, when deciding if a DB plan is right for your organization.

## Advantages

For employers and plans sponsors looking to help their employees improve their retirement picture, a DB plan could be the right choice. Where traditional plans practically require employees to actively invest and manage their individual investment choices (and where many employees are falling short in predicting their needs and saving enough), DB plans take the guesswork out of investing.

With little or no effort required on the part of employees, DB plans do the work for the employees. Retirement income lasts throughout the entirety of retirement. Budgeting becomes easier. Retirees can also reduce benefit payments to allow for surviving spouses to have income in the event of the participant's death.

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## Disadvantages

The very thing that makes a DB plan a no-brainer for investors is also a disadvantage. The plan's investing decisions are out of the participant's control. Also, just one DB plan per person – should employees want to save more for retirement, they can do so through another retirement savings vehicle, but not through a second DB plan.

*A recent survey shows that the once-maligned defined benefit plan is making a comeback. Is a defined benefit plan right for your organization?*

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Also, while it is an advantage to know what participants will receive in retirement, it's also all that they will receive. The payout does not fluctuate and, in some DB plan structures, payouts will not be adjusted to keep up with inflation.

Another disadvantage – the cost to the employee with a defined benefit plan. According to the Bureau of Labor Statistics, employee costs, on average, are \$2.53 per hour worked versus \$1.46 for a defined contribution plan. Employers pay less for DB plans (by 60 cents) than for defined contribution plans.

## **Who Benefits?**

Depending on your employee demographic or your business needs, your organization could be well-situated to take advantage of a DB plan as a retirement plan option. If your employees value knowing how much they will receive in retirement, or if they're looking for tax-free retirement income, a DB plan could be the right choice for your company.

Contact BCG to review your employees' needs and understand the plan's structure and limitations and to further discuss how these or other plan design elements may benefit your plan. ■