412(e)(3) Defined Benefit Pension Plans

If you are a business owner or professional with few or no employees, a 412(e)(3) Defined Benefit Plan may be worth exploring.

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A 412(e)(3) defined benefit pension plan, referred to as an "insurance contract plan", is the only defined benefit plan that is exempt from the minimum funding requirements of Section 412 of the Internal Revenue Code. This type of plan, therefore, enjoys certain advantages over the traditional defined benefit plan and is worth exploring if you are the owner of a small business.

These advantages create a plan that, compared to a traditional defined benefit plan, can produce:

- much larger initial deductions;
- greater stability in the contribution level;
- no under-funding or over-funding issues or potential fines
- simpler plan administration, and
- a secure promise of future benefits.

What are the Advantages over a Traditional Defined Benefit Plan or Cash Balance Plan?

- Does not require an enrolled actuary every year;
- Is not subject to the full funding limitation tests of a defined plan or cash balanced plan;
- Is required to use the contract guarantees as funding assumptions, thus helping shield them from IRS attack as unreasonable funding assumptions;
- Can be designed to eliminate the potential of excess plan assets that, in a traditional plan, could be subject to taxes and penalties of 80% or more upon termination of the plan;
- Produces an understandable accrued benefit since it is simply the cash value of the contracts funding the participant's account;
- Creates larger initial deductions than a traditional plan since the funding assumptions are required to be much more conservative; and
- Provides retirement benefits that are guaranteed by the insurance company and not just the financial strength of the particular employer providing the plan.

What Major Requirements Must be Met to Qualify as a 412 (e)(3) Under the Internal Revenue Code?

- The plan must be funded exclusively with qualifying annuity products, or a combination of life insurance and annuity products, issued by an insurance company.
- The benefits provided to each individual must be equal to the values provided in the contracts and guaranteed by the insurance carrier.
- Life insurance dividends and excess annuity interest must be used to reduce the following year's plan contribution.
- No policy loans are allowed under the contracts.

How Much Can the Initial Deductible Contribution Be?

Age	Annuity Only	Maximum Life Insurance and Annuity
45	$149,281	$151,175
50	$216,938	$226,462
55	$266,987	$289,774

The Chart to the left shows the maximum first year contribution using Life and Annuity products at selected ages.

If your goal is a large deduction for your business and a secure retirement benefit for yourself, the special characteristics of the 412(e)(3) defined benefit plan are worth exploring. National Pension Partners would be happy to provide you with a free look at a 412(e)(3) plan for your specific business.