SETTING UP FOR RETIREMENT SUCCESS: THE DEFINED BENEFIT PENSION PLAN

After the historic market down-turn in the first quarter of 2020 many employers may be asking the question "What can I do to provide myself and my employees a safe and secure retirement?"

The answer may well be a **fully insured §412(e)(3) defined benefit pension plan**.

What is a §412(e)(3) defined benefit pension plan?

A §412(e)(3) defined benefit pension plan is a special type of defined benefit pension plan. As the name implies, a defined benefit pension plan is a plan designed to pay a specified dollar amount at retirement to plan participants. Normally the benefit is a monthly payment to the participant and his beneficiaries for life although other forms of payment, such as a single lump sum, are permitted.

What sets §412(e)(3) defined benefit pension plans apart from other types of defined benefit pension plans?

The key difference is that §412(e)(3) defined benefit pension plans are funded exclusively through guaranteed annuity and insurance contracts issued by an insurance company. Thus, they are not subject to the uncertainty regarding investment performance which is often the case with other types of plans.

§412(e)(3) plans can offer significant benefits to both the employer and the plan participants:

- larger initial deductions;
- greater stability in the contribution level;
- may include life insurance in the plan;
- simpler plan administration, and
- a secure promise of future benefits.

What are the advantages over a traditional defined benefit plan?

- Does not require an enrolled actuary;
- is not subject to the full funding limitation tests of a defined plan;
- is required to use the contract guarantees as funding assumptions, thus helping shield the plan from IRS challenge as using 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 benefit;
- creates larger initial deductions than a traditional plan since the funding assumptions are required to be more conservative; and
- provides retirement benefits that are guaranteed by the insurance company and not just the financial strength of the particular employer sponsoring 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 annuity products, or a combination of life insurance and annuity products,[1] 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?

The chart below shows the maximum first-year contribution for 2020 using American National Life and Annuity products at selected ages:

Age	Annuity Only	Annuity and Life Insurance
45	$158,376	$161,150
50	$230,155	$240,737
55	$283,209	$306,904

What is the deadline to set up a new §412(e)(3) plan?

For 2020 and later years the deadline to adopt a new §412(e)(3) plan is the due date, including extensions, of the employer's tax return.

What type of client should consider a §412(e)(3) plan?

Generally, a §412(e)(3) plan is a good fit for an employer who is conservative when it comes to investments, likes the benefit guarantee provided by an insurance company and has the wherewithal to make required contributions every year.

If your client's goal is a large deduction for his business and a secure retirement benefit for himself and his employees, the special characteristics of the 412(e)(3) defined benefit plan are worth exploring. American National would be happy to provide your client with a free look at a §412(e)(3) plan for your client's specific business.

Please call us at (888) 909-6504 or email us at **pensionproposals@americannational.com** for more information.

1) The life and/or annuity insurance product(s) used to fund a §412(e)(3) plans must meet the requirements set forth in Treasury Regulations §1.412(i).

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