

Schwab Personal Defined Benefit Plan Information Guide

Take advantage of this opportunity to preserve your wealth for the future.

Advantages of a defined benefit plan

Higher contribution limits—Contributions can be significantly higher than those of other business retirement plans (see example on page 3). This can help those nearing retirement grow their nest egg quickly. Ideally, you should be over age 50 and earning over \$250,000 for a defined benefit plan to be an appropriate retirement savings vehicle.

Tax deductions—The contributions you make are generally 100% tax-deductible. This can translate into big tax savings now.

Targeted income for retirement—Plan contributions are adjusted each year based on investment results to help you reach your retirement savings goal.

Features of the Schwab Personal Defined Benefit (DB) Plan

Complimentary funding proposal—If a defined benefit plan makes sense for you based on your age and earnings level, our dedicated team of actuaries will provide a complimentary customized funding proposal that will give you the information you need to decide if this plan is right for you.

Competitive prices—Our service fees are among the most competitive in the industry.

Simplified, comprehensive services—Schwab provides the following services to help make operating your plan easy:

- Annual actuarial calculations to help keep your retirement plan on track
- Preparation of annual IRS Form 5500-SF or 5500-EZ
- Eligible distributions calculations when plan participants retire or leave your company
- A dedicated team of defined benefit specialists to answer your questions about your plan
- Investment advice and a wide range of investment choices to help you meet your goals

Receiving your benefit at retirement

When you reach retirement age, you'll have three options for receiving your benefit payout:

- 1. Lump-sum distribution into an IRA.** You can roll over your assets into an IRA, and they will remain tax-deferred until you withdraw them. This may allow for more flexibility, as distributions from the IRA aren't required until age 70½.
- 2. Lump-sum distribution payable to you.** You can take a lump-sum distribution for the full amount of your benefit. However, the amount is taxed immediately, and a 10% penalty may apply if you're under age 59½ at the time of the distribution.
- 3. Set up an annuity.** You can pay yourself a monthly benefit from the plan over your lifetime. This requires maintaining your Schwab Personal DB Plan indefinitely, so it may not be practical for many people. You could also purchase an annuity after rolling over the assets into an IRA.

You can also combine options 1 and 2, taking part of the benefit as a lump sum payable to you and rolling over the balance into an IRA.

Understanding defined benefit plans

Defined contribution vs. defined benefit plans

Qualified pension plans and retirement savings programs fall into one of two categories: defined contribution plans or defined benefit plans. A brief description of the two types can help you understand why you can often contribute higher amounts to a Schwab Personal DB Plan.

Defined contribution plans, comprising a broad range of programs—such as profit-sharing, 401(k), money purchase, Keogh, and SEP-IRA plans—allow owners and employees to make retirement contributions that are allocated to individual participant accounts. Funds available at retirement are the accumulation of those contributions plus investment earnings. But it's uncertain what the expected amount, or benefit, will be at retirement. These plans are generally more favorable to younger employees who have a longer time horizon until retirement.

Defined benefit plans, such as the Schwab Personal DB Plan, promise participants a specific monthly lifetime benefit amount at retirement (which is usually taken as a one-time, lump-sum payment). A benefit formula is created that targets a level of retirement income that can be supported by your desired annual contribution level (but is subject to IRS benefit limits). Contribution amounts are then calculated and adjusted annually to ensure that the target goal is reached. Contributions for all the plan participants are kept in a single account that is used to pay the expected benefits. Defined benefit plans tend to favor long-service, highly compensated business owners, partners, and key employees who are in their peak earning years. DB plans can also be especially beneficial for those who need to quickly increase their retirement assets.

Example: A 55-year-old physician who does not have employees plans to retire in 10 years but hasn't focused on saving for retirement until now. Because of his age, he needs to accelerate his savings to quickly build up sufficient retirement assets in order to maintain his current lifestyle throughout retirement.

His self-employment net income has averaged \$260,000 for the last three years. With the Schwab Personal DB Plan, he can contribute as much as \$165,800 in 2016. (Increases in the IRS maximum benefit may allow him to contribute even more in the future.) This table shows where he will stand in 10 years under the Schwab Personal DB Plan versus making the maximum allowable contributions to a SEP-IRA:

	SEP-IRA	Schwab Personal DB Plan
2016 contribution	\$53,000	\$165,800
2016 tax savings	\$21,200	\$66,320
Retirement wealth at age 65 (before taxes)	\$740,000	\$2,450,000

Assumes the owner's retirement at age 65, a 40% tax bracket, and future assumed investment return compounded annually as follows: SEP-IRA 6% return annually; Schwab Personal DB Plan 3.98% return before age 65 and 5.5% return beginning at age 65. For simplification, future increases in contribution and benefit limits were not factored into the above calculation.

Important considerations

Employees—The Schwab Personal DB Plan is ideal for sole practitioners and small-business owners with five or fewer key employees, but can be beneficial for professionals with three or fewer young, lower-paid employees. If you have employees, you should be prepared to make significant, tax-deductible contributions on their behalf, especially if they are older or more highly paid.

Contribution requirements—Contributions are generally required annually, and this plan is suited for someone who can contribute \$80,000 or more for several years. Note: Contributions are not discretionary—you must make the annual required contributions needed to properly fund the plan.

If you or your spouse own other companies—Ownership of other entities by you or your spouse could mean that your DB plan would need to cover all employees of all the entities under common ownership. You should consult your legal counsel to determine if this applies to your situation.

Have you made contributions to another plan for the current year? If these contributions exceed certain limits, you will likely need to wait until next year to open up the DB plan. This is due to IRS limits on total contributions to all plans of the employer.

Duration of the plan—The IRS requires that a plan be “permanent” and used for retirement purposes only. You should expect to maintain your plan for at least five years.

Terminating your plan—Plans can be terminated earlier than your pre-selected retirement age for several reasons, such as serious financial distress, death of the employer, or dissolution of the business. However, due to the permanency requirement, the IRS could disqualify the plan if it is terminated in less than five years. Regardless of when the plan is terminated, an additional fee will be charged for Schwab to process your plan's termination.¹

¹ At the current time, these fees are approximately \$4,800–\$6,000, depending on the size of the plan and the amount of the IRS inquiry.

Amending your plan—Occasionally you may want to change plan provisions in order to increase or decrease future plan contributions. An additional fee will be charged for Schwab to modify your benefit formula and process amendments to your plan.²

Investment responsibility—Unless you delegate investment authority to another party, you will be responsible for investing plan assets to ensure that asset growth will meet funding projections.

Deadlines—Your Schwab Personal DB Plan must be opened by the end of your business' fiscal year (usually December 31) to make contributions for that tax year. Schwab must receive your funding proposal worksheet by November 15 to ensure enough time to prepare and execute all the required documentation needed to establish the plan.

Service Fees

	Type of Business		
	One person only	Key employees only ⁴	Employers with staff ⁴
Set-up fee ³	\$1,500	\$1,750	\$1,750 + \$200 per participant
Annual maintenance fee ³	\$1,500	\$1,750	\$1,750 + \$200 per participant

²At the current time, the fees for analyzing how the plan formula should be changed and drafting an amendment are approximately \$750–\$1,500.

³Schwab Corporate & Retirement Services will invoice fees at the time of plan setup and annually when Form 5500-SF or 5500-EZ is prepared.

⁴A key employee is defined as an employee who is at least a 5% owner or who is a 1% owner with an annual compensation of \$170,000 or more. Staff are any employees who are not key employees.

Next steps

Complete a Schwab Personal DB Plan Funding Proposal Worksheet to receive your complimentary detailed funding proposal and begin the application process.

How to contact us

Call 1-877-456-0777, Monday–Friday, 9:00 a.m.–7:30 p.m. ET.

This tax information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends that you consult with a qualified tax advisor, CPA, financial planner, or investment manager.