

# Defined Benefit Plan



## FACT SHEET

Defined Benefit Plan Overview	
<b>Tax Advantages</b>	<ul style="list-style-type: none"> <li>• Employer contributions are tax deductible</li> <li>• Employees pay no income taxes on contributions or earnings until benefits are received by the participant or their beneficiary</li> <li>• Flexible distributions are available through employee-controlled periodic payments from a “rollover” IRA</li> </ul>
<b>Plan Features</b>	<ul style="list-style-type: none"> <li>• Employees covered under a collective bargaining agreement can generally be excluded</li> <li>• Eligibility requirements can include up to age 21 and two years of service (1,000 hours each year)</li> <li>• Benefits are determined according to the formula specified in the plan (usually a percentage of compensation)</li> <li>• The maximum benefit is 100% of the average of a participant’s three highest consecutive years compensation, subject to a \$290,000 annual limit (2026)</li> <li>• The age-weighted benefit formula generally provides older participants with a substantially larger benefit</li> <li>• The benefit formula can be integrated with Social Security (permitted disparity) to provide larger benefits to higher paid employees</li> <li>• Top-heavy minimum benefits are required if the total “present value” of the key employees’ accrued benefits exceed 60% of the total present value of all employees</li> <li>• Contributions are actuarially calculated each year</li> <li>• Ownership of an employee’s benefit can be tied to a vesting schedule based on years of service</li> <li>• The participant’s vested benefit is generally payable upon retirement, severance from employment, disability or death</li> <li>• Taxable distributions due to disability, death or after age 55 and severance from employment avoid the IRS 10% early withdrawal penalty</li> <li>• Non-owner employees can defer any or all distributions until they are subject to IRS minimum distribution rules at the later of the IRS RMD age or retirement</li> </ul>
<b>Contributions (Employer Only)</b>	<ul style="list-style-type: none"> <li>• Contributions are required</li> <li>• Actuarial funding methods are available to provide either a contribution range (minimum and maximum amounts) or a required contribution amount</li> <li>• Contributions must be made before the earlier of the due date (including extensions) of the employer’s tax return or 8½ months after the plan year end</li> </ul>
<b>Plan Suitability</b>	<p><b>Defined Benefit Plans are favored when the employer:</b></p> <ul style="list-style-type: none"> <li>• Has the ability to make required contributions</li> <li>• Wants to increase older, higher-paid participants’ retirement benefits</li> <li>• Wants to contribute more than the 25% defined contribution plan limit</li> <li>• Has older key employees</li> <li>• Wants to attract and keep key employees</li> </ul>
<b>Advantages of a Defined Benefit Plan</b>	<ul style="list-style-type: none"> <li>• The employer’s deduction can exceed 25% of the participants’ aggregate compensation</li> <li>• A participant’s annual funding can exceed \$72,000</li> <li>• Older, higher-paid employees can receive larger retirement benefits</li> </ul>

# Your path *To and Through Retirement*<sup>®</sup> begins here.

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Talk to your financial professional to see whether a **Defined Benefit Plan**  
can complement your retirement portfolio or contact us at **800.888.2461**.

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22-31902-15 | 2026/01/19