

A DB Plan Partner for Small Businesses

High contribution limits and tax benefits are big plusses in DB plans

By Savita Iyer

While defined benefit plans are now almost extinct in the large corporate space, they're alive and kicking in America's small business world, according to Karen Shapiro, co-founder and CEO of San Mateo, California-based Dedicated Defined Benefits Services, where Shapiro says they make perfect sense.

Dedicated DB, as the company is known, offers small business defined benefit plans that, Shapiro says, are among the most powerful tax-efficient retirement programs available today to high-income professionals and small businesses. Defined benefit plans allow the highest annual contributions to a qualified retirement plan, averaging more than \$140,000 for new plans opened in 2006, according to Dedicated DB. With an average life of 8.2 years, each account could total over \$1 million in assets and then be rolled into a 401(k) upon termination.

Dedicated DB's end-to-end solution is specially geared toward Baby Boomer businesses that are made up of one to five persons, and to high-income Americans who want the highest allowable IRS deduction on earned income and retirement contributions. "This plan allows someone to contribute as much as they want on an annual basis and it is a deduction from their business income, which means the money doesn't go [to paying] taxes, it goes into their savings," Shapiro says. "People who follow our plan are looking at it as both a tax strategy and a retirement strategy."

Unlike defined contributions plans, where there is a maximum amount an individual can contribute on an annual basis, the defined benefit plan such as the one proposed by Dedicated DB has no limit. An annual input calculation is done depending on what a person is earning today and what they would like to earn in retirement.

Of course, contributing large amounts on an annual basis means that this kind of defined benefit plan calls for a great deal of commitment on the part of an individual or a business for a period of three to five years. However, Dedicated DB does offer some flexibility in that it allows clients to put some of their savings into a 401(k) plan if they wish. "If someone's opening a defined benefit plan with us, we will open a 401(k) plan for them if they want," Shapiro says. "People might feel uncomfortable if they have to commit high amounts to a defined benefit plan every year, so instead they can put some into a 401(k). Likewise, if they want to go above what they have committed to putting into their defined benefit plan, they can put that into a 401(k) plan."

In the same manner, someone who is part of a company 401(k) plan can also contribute to Dedicated DB's defined benefit plan, if he or she has a secondary source of income, derived from consulting, or sitting on the board of directors of a company, for instance. "All that side income can be put into a defined benefit plan," Shapiro says.

About 65% of the entities that have signed onto a Defined DB plan are one-person businesses such as doctors, consultants, and real estate agents, people for whom this kind of a retirement saving plan makes the most sense. "We even have a number of financial advisors as clients because in recommending Defined DB to their clients, they have realized it makes sense for them, too," Shapiro says. "In a small company where an owner is older than his or her employees and is making much more money than them, having a defined benefit plan in place is ideal because the owner will get 90% of the benefit."

Dedicated DB is different from other providers in the defined benefit space, Shapiro says, because it is really focused on high-income individuals between the ages of 40 and 75 who own small companies. Anyone who fits this profile can go right to the company and literally grab the plan off its shelves, Shapiro says. But Dedicated DB also offers plan customization, as well as online and consultant help, for advisors who might be proposing the plan to their clients.

Shapiro, together with Art Leaffer, Dedicated DB's vice president, first set up Leaffer Shapiro, a defined benefits services company that sold more than 1,300 small business defined benefit plans. The two then joined forces with Richard Collins, former president of RC & Associates, a consulting firm that worked with pension firms across the U.S., to set up Dedicated DB.