

What are the characteristics of defined benefit plans?

Defined benefit plans:

- Promise a benefit based on a specific formula.
- Place the risk on the employer for investment returns, funding, and benefits.
- Tend to favor older employees with shorter planning horizons.
- Require annual actuarial calculations (most costly for employer).
- Have limited benefit levels that are guaranteed by both the employer and the Pension Benefit Guaranty Corporation (PBGC).

What are the characteristics of defined contribution plans?

In defined contribution plans:

- Participants are guaranteed to receive the full value of their account at retirement.
- The investment risk rests solely on the participant.
- Younger employees with longer investment horizons tend to benefit the most.

What is a Keogh plan?

A Keogh plan, sometimes referred to as an HR-10 plan, is a qualified retirement plan that covers one or more self-employed individuals.

A Keogh plan is generally like any qualified plan. The exception is that the self-employed individual's "earned income" takes the place of "compensation" when determining the plan contribution. Earned income is defined as the self-employed individual's net income from the business after all deductions, including the deduction for Keogh plan contributions and a deduction for one-half of the self-employment tax.

Self-employed individuals are permitted to make loans from Keogh plans.