DB/DC Comparison & Reference Guide

	Defined Contribution (DC) Plans	Defined Benefit (DB) Plans	Combination
Deduction Limits	25% of payroll for benefiting plan participants.	The maximum amount under IRC §404. This is calculated by the actuary.	Generally 31% of payroll for benefiting plan participants. However, if employer allocations to the DC plan are not more than 6% of participating payroll, there is no combined limit. Also, if the DB plan is subject to PBGC coverage, there is no combined limit.
Timing of Employer Deposit	Due date of tax return on which deduction is being taken. In any event, safe harbor contributions must be made by the end of the following plan year. Plans subject to the minimum funding rules, such as Money Purchase Plans, never later than 8 ½ months following the end of the plan year. Regardless if the extended deadline is October 15th for a Sole Proprietor or if the extended tax deadline is the Monday following September 15th (if the 15th falls on a weekend), the minimum funding deadline of 8 ½ months is **not** extended.	Same as DC plans that are subject to the minimum funding rules.	Each plan retains its respective requirements.
Annual Compliance Testing on Employer Provided Benefits	Typical coverage (IRC §410(b)) and participation (IRC §401(a)(4)) tests.	Like DC. Also must provide a "meaningful benefit" to the lesser of 40% of eligible employees or 50 employees, but not less than 2. Of course, the plan may cover 1 employee if they are the sole employee (IRC §401(a)(26)).	Like DB plans, but note that the 5% threshold for satisfying the gateway can be as high as 7.5% (depending on the highest HCE EBAR). Pinnacle prepares this testing, so there is no need for you to run these tests on non-elective contributions in the DC plan, unless accruals in the DB plan are frozen.
Employer Allocations	Formula and allocation conditions are stated in the plan document. For plans subject to minimum funding, once a participant has met the allocation requirements for the year, the stated benefit cannot be avoided. Plans providing discretionary profit sharing contributions that are allocated based on class, particularly where every participant is his/her own class, may have considerable flexibility in providing unique allocation amounts to a given participant, subject to discrimination testing.	Same as DC plans subject to minimum funding. Like those plans, amending the plan to provide a lower benefit requires that a 204(h) notice be provided to participants at least 15 days (45 days for large plans) prior to the date of the reduction in benefits. Note that allocations do not necessarily equal funding; the actuary will provide you with a range of acceptable funding that, in the case of cash balance plans, typically incorporates the annual theoretical account credits.	Because most cash balance arrangements are designed to pass the annual compliance tests by aggregating employer non-elective contributions in the DC plan and benefits in the DB plan, it is important to note that, even where a profit sharing contribution is 'discretionary' per the plan, in effect a contribution is required for NHCEs.
Top Heavy Determination	More than 60% of the plan's assets are held by the Key Employees.	The total present value of the Key Employees' accrued benefits exceeds 60% of the total present value of all employees' accrued benefits.	In general, the benefits/account balances of each plan are added together to determine top heavy status.

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Top Heavy Minimums	3% (or, if less, the greatest Key allocation rate) to participants employed on last day of plan year.	2% of highest 5 year average compensation up to 10 years of participation. For this purpose, a year of service is a plan year in which 1,000 hours are completed.	Either 1) the DB minimum, or 2) 5% to participants who are either employed on the last day of the plan year or have worked at least 1,000 hours of service during the plan year. Most cash balance plans are written to use the "at least 1,000 hours of service during the plan year" requirement.
Plan Documents	Most are written on a volume submitter or prototype. If submitted, this would happen on the 6-year cycle for DC plans.	Most are written on a volume submitter or prototype. If submitted, this would happen on the 6-year cycle for DB plans. Currently there are no pre-approved plans available with a cash balance formula, but they are forthcoming. It is generally anticipated that there will be no need in the future to submit cash balance plans as individually designed plans on 5 year cycles.	Each plan retains its respective requirements.
PBGC Coverage	Not applicable.	All plans are subject to PBGC unless they are exempt. Plans covering only substantial owners are exempt. Plans of professional organizations with no more than 25 active participants with a benefit are exempt (though once the threshold is broken, the exemption no longer applies). PBGC coverage results in annual premium payments, the replacement of the Summary Annual Report with the Annual Funding Notice, the potential need to report missed quarterly payments to PBGC, and, upon the plan's termination, the need to submit the termination to PBGC.	Each plan retains its respective requirements.
§415 Limits	Annual additions cannot exceed lesser of 100% of compensation or the year's stated limit.	A participant may only withdraw from the plan the equivalent of the year's stated limit as an annuity commencing between age 62 and 65. A participant's compensation history, current age, historical service and years of participation all affect this calculation. The year's valuation will reflect each participant's §415 limit. The actuary will carefully monitor the plan's assets relative to the §415 limits and suggest funding ranges accordingly. Upon plan termination, excess assets would need to be either 1) reallocated under an increased benefit formula to other participants, or 2) reverted to the employer (with hefty associated excise taxes payable by the employer).	Each plan retains its respective requirements.
Vesting Provisions	Must use a schedule no less liberal than a 6-year grade or a 3-year cliff.	Must use a schedule no less liberal than a 7-year grade or a 5-year cliff; however, "applicable plans" like a cash balance plan must be no less liberal than a 3-year cliff.	Each plan retains its respective requirements.
Annuity Form of Distribution	Other than plans subject to minimum funding rules, there is no requirement that a plan provide for an annuity option as a form of distribution.	Annuity options must be provided for benefits worth (currently) over $5,000. The liabilities in cash balance plans are very predictable (it is a participant's theoretical account balance). The liabilities in a traditional defined benefit plan are affected by the §417(e) segment rates and are, therefore, less predictable.	Each plan retains its respective requirements.

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Restrictions on Distributions	Distributions may be taken as stated in the plan document.	Distributions may be taken as stated in the plan document. However, a plan's funding status, as represented by the actuary's annually certified Adjusted Funding Target Attainment Percentage (AFTAP) may affect the plan's ability to make lump sum and other accelerated payments (referred to as 436 restrictions). Further, distributions to HCEs (other than de minimis distributions) may not be paid until the plan's assets are no less than 110% of the plan's current liabilities (generally accepted to be the plan's funding target). Generally, in-service distributions are not available prior to age 62.	Each plan retains its respective requirements.
Making Plan Amendments	Discretionary amendments generally must be adopted by the end of the plan year. Amendments cannot "cut back" benefits to which a participant has already earned the right. Amendments to correct testing failures must be adopted within 9 ½ months after the end of the plan year.	Like DC. However, in order to recognize an amendment for funding purposes, it must be adopted within 2 ½ months of the end of plan year. Further, if the plan's funding status (again, measured by the AFTAP) falls below a certain threshold, the ability to adopt an amendment that increases benefits becomes restricted. If the funding status falls below an even lower threshold, an automatic benefit freeze may take effect.	Each plan retains its respective requirements.
Plan Termination	Distribute account balances.	If a plan is underfunded, covered by PBGC, and covers no majority owners (owners of more than 50%), contributions will likely need to be made to fully fund the plan. Depending on whether or not the plan is covered by PBGC and its funding status, there are various ways that a plan termination can play out. It is important to keep abreast of the client's expected timeline for plan termination, and to keep them informed about the funded status of their plan (using the annual valuation reports provided by the actuary). PBGC covered plans require submission to the PBGC prior to issuance of plan distributions, and must adhere to strict timing windows for notifications and distribution timing.	Each plan retains its respective requirements.