



What is a Split-Funded Defined Benefit Plan?

Learn how TPAs can help optimize benefits including employee benefits, retirement plans and insurance

A Split-Funded Defined Benefit (SFDB) plan is an Employer-Sponsored, Qualified Plan that can offer significant tax savings to business owners. Combining features of both a defined benefit plan & a defined contribution plan, Split-Funded Defined Benefit Plans can be an efficient planning tool for small business owners.



// Tax Deductions

100% of contributions made to a SFDB are tax deductible. As SFDB plans are a type of defined benefit plan, tax deductible contributions can range from \$100,000 to \$400,000 annually.

// History

The first employer-sponsored retirement plan was a pension plan offered by the American Express Company in 1875. Currently, SFDB plans are governed by the Employee Retirement Income Security Act of 1974.

// Investments

SFDB plans can use any appropriate investment including life insurance. Contributions and premiums are tax-deductible. Life insurance death benefit proceeds are income-tax free*

*(Cash Values of life insurance may be taxable)

// Portability

SFDB proceeds and benefits are completely portable. When a plan ends, or an employee leaves, employees have the option of rolling these benefits to another qualified retirement account.

// Classifications of Employees

SFDB can create different tiers or groups of employees, including owners allowing for maximum flexibility in plan design and funding. Different funding amounts can be allocated to the various groups.

// Customization

TPAs can often tailor their services to meet the specific needs of their clients. This level of customization can be especially valuable for businesses with unique requirements or complex benefit structures.

Benefits OF A Split Funded Defined Benefit Plan

// Interest Credits

In addition to the contributions, the account also earns interest credits. These credits are usually defined in the plan document and can be a fixed rate or tied to an external benchmark, such as the U.S. Treasury rate. The interest credits help the account balance grow over time.

// Risk Management

Life insurance can guarantee that promised benefits will be paid out even if an employee dies before retirement.

// Objective Advice

SFDB plans must be administered by an enrolled actuary. Actuaries for a SFDB also assist the employer in following laws and regulations regarding their plan. Lastly, actuaries will sign the Schedule SB of the SFDB Plan's Form 5500.

// Payout Options

At retirement, employees can generally choose how to receive their SFDB plan benefits. They can take a lump sum payment or opt for periodic annuity payments, providing them with a stream of income in retirement.

// Scalability

SFDB Plans can often scale their contributions up or down based on the needs of their plan sponsors. This flexibility is valuable for businesses that experience changes in size or requirements.



Split Funded Defined Benefit Plans allow business owners to contribute efficiently. SFDB Plans offer:

- Significant tax savings
- Substantial asset accumulation
- Creditor protection
- Risk Management

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*DISCLAIMER: All References to IRS Codes can be found at: <https://www.irs.gov/tax-professionals/tax-code-regulations-and-official-guidance>. We are providing the descriptions above to help you understand services or products we may make available to you, or factors that you should generally consider when deciding whether to engage in any transaction, service or product. Please note that it is important that you evaluate this material and exercise independent judgment when making investment decisions. This information, including any description of specific investment services or products, is marketing material and is solely for the purposes of discussion and for your independent consideration. It should not be viewed as a suggestion or recommendation that you take a particular course of action or as the advice of an impartial fiduciary. If you would like more details about any of the information provided, or you would like personalized recommendations or advice, please contact your Financial Advisor. Heritage does not provide tax and legal advice and you should consult with your tax and legal advisors regarding your personal circumstances. **For Broker Dealer and Plan Sponsor Use Only – Not for Public Distribution.***

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