



412(e)(3)

A fully-insured defined benefit pension plan, also known as a “412(e)(3) plan,” is a defined benefit pension plan that can only invest in life insurance and annuity contracts. No other investments are allowed. A 412(e)(3) plan can be split-funded with life insurance and annuity contracts, or it can be funded exclusively with annuity contracts. The contracts must be guaranteed by the insurance company. Therefore, a 412(e)(3) plan cannot use variable products.

A 412(e)(3) plan is the safest and most conservative type of defined benefit pension plan, because it uses investments guaranteed by an insurance company. With a 412(e)(3) plan, an employer can avoid market risk, since investment returns are guaranteed. A 412(e)(3) plan transfers investment risk from the employer to the insurance company. As long as the employer makes the required contributions, the insurance company guarantees that the benefits will be paid. A 412(e)(3) plan can never be underfunded.

A 412(e)(3) plan offers the largest contributions of any qualified retirement plan. Because contributions are based on guaranteed interest rates, contributions to the plan may be two to three times larger than contributions to a traditional defined benefit pension plan and even six times larger than contributions to a defined contribution plan. The larger contributions enable an employer to fully fund its plan more quickly. A 412(e)(3) plan is best suited for an employer looking to maximize current contributions and future retirement benefits.

ABOUT RMC

RMC Group is an international provider of insurance, risk management, retirement and actuarial consulting services. From around the globe, our professionals help businesses and individuals anticipate, quantify, and understand the risks they face.

Since 1974, members of the RMC Group have represented the interests of their clients by helping them make sense of an increasingly complex world. We work with clients of all sizes to define, design and deliver solutions to better manage risk.

RMC's team brings deep intellectual capacity, industry-specific expertise, global experience, and collaboration. We offer risk consulting and management, insurance brokering, alternative risk financing, retirement consulting and administration, and insurance program management services to businesses, government entities, organizations, and individuals.

CHARACTERISTICS OF A 412(e)(3) PLAN

- Funded exclusively with insurance and annuity contracts guaranteed by the insurance company
- Benefits equal cash value of contracts
- Maximum retirement benefit at ages 62 to 65 is greater of \$245,000 or 100% of compensation
- Eliminates direct equity market risk
- Easy to understand
- May provide largest contributions of any qualified retirement plan
- A 412(e)(3) plan can never be over-funded or under-funded
- May be combined with a 401(k) plan
- Best suited for employers with stable cash flow, looking to provide maximum retirement benefit on a guaranteed basis

DISADVANTAGES

- Requires annual level contributions
- Investment options limited to guaranteed insurance products

For more information, contact our headquarters at 888.599.5553 or visit our website at rmcgp.com.

RMC Group is the marketing name for a number of related businesses that offer a variety of services and products. Each member of the RMC Group is a separate and independent business and is solely responsible for its financial condition and contractual obligations.

IRS Circular 230 Disclosure: Pursuant to regulations governing practice before the Internal Revenue Service, please be advised that anything contained in this communication, including attachments, which may be construed as tax advice, is not written or intended to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer under the Internal Revenue Code.

Copyright © 2016 RMC Group and its related entities. This material was designed to provide general information and is not a contract.

Collar: 20200127 Compliance Number: RMC8271641-002