



Target Benefit Plan

A Target Benefit Plan is a hybrid of a Money Purchase Plan and a Defined benefit Plan. It is like a Money Purchase plan because contributions are required each year and it is an "individual account plan". It is like a Defined Benefit Plan in that the annual contribution is determined by the amount needed each year to accumulate a "target Benefit" at a participants normal retirement age. The contribution is determined using a specified interest rate and mortality table with a plan formula similar to a Defined Benefit Plan (i.e.; a projected benefit of 30% of salary using per year at normal retirement age). Due to the "DB" nature of calculating the contribution....the contribution is weighted towards older employees.

A Target Benefit is not similar to a Defined benefit for the following reasons:

- Each individuals contributions limited to the lesser of 100% of pay, or \$40,000 (eff. 1/1/02) (\$35,000 for 2001). Thus, if an older individual joins the plan, their contribution in most cases will be limited.
- If the actual investment experience of the Plan differs from the stated interest rate assumptions, the employer does not adjust the contribution. Contributions only change for salary fluctuations or Plan Amendments. The maximum deductible contribution for a Target Benefit Plan is 25% of salary.
- Each year the individual account is credited with actual fund earnings and employer contributions. The amount payable at retirement is the actual account balance at that time. This payment may either be in a "lump sum" form or an annual benefit (i.e.: an annuity) purchased with the "lump sum amount"

A Target Benefit Plan is similar to a Money Purchase Plan for the following reasons

- The contribution is required and is based on a stated fixed formula. The maximum deductible contribution is 25% of salary.
- The Plan is an individual account Plan to which earnings and contributions are allocated each year.
- The retirement benefit is not guaranteed. The amount payable at retirement is the amount in the account at that time
- Each individuals contributions limited to the lesser of 100% of pay, or \$40,000 (eff. 1/1/02) (\$35,000 for 2001).

A Target Benefit Plan is dissimilar to a Money Purchase Plan for the following reason

In a Target Benefit Plan contributions are determined as if the plan were to provide a fixed benefit. In a Money Purchase Plan, contributions are determined as fixed percent of annual compensation. Thus, in a Target Benefit Plan, two individuals with equal compensation but different ages would receive different contributions. In a Money Purchase Plan, they would receive identical contributions. Consequently, Target Benefit Plans appeal to older employees.