Defined benefit plans research paper sample

Business, Company

- There are two basic types of retirement plans available: 1) defined benefit plans, and 2) defined contribution plans. Briefly describe the two types of plans; include at least three features of each.

- Defined benefit plans:

- Defined contributions plans:

These benefits are sorted out procedurally. This procedure of computation uses factors such as duration of employment and salary history. The portfolio management and investment risks are controlled by the company. In this case, the employees may encounter restrictions on withdrawal.

Defined contributions plans

The percentage to be contributed by each employee is determined by the company’s management. The percentage contributed by these employees is used by the company to save into their retirement plan. The withdrawal of these funds may lead into penalties.

- Most retirement plans today are of the defined contribution variety. An example is a 401(k) plan. Suppose your first employer after graduation from college offers a 401(k) plan and that you make contributions to from each paycheck.

- How are the contributions treated for tax purposes today?

- When do you pay taxes on the returns you earn?

For instance, 5% of the salary will be subtracted from the paycheck and put into the 401 (k) account prior to tax computation on the balance remaining on the take-home pay. Taxes are therefore paid on the 95% of the salary remaining and the 5% is saved for retirement. One is required to pay taxes at a later date once the money is withdrawn.

- People tend to change jobs more frequently today that they did in the past. Suppose you worked for five years at your first firm, then change jobs to move to a better position with another firm.
- Why would it be a bad idea to take your 401(k) account balance in cash and go on vacation between jobs?

The most inappropriate option is taking the money and keeping it. About 30% of the balance remaining on the account will be consumed and this will put one in an awkward position since the money is not circulating in the economy.

- For individuals who do not have access to an employer-provided retirement plan, Individual Retirement Accounts are available. Suppose you open a tax-deductible IRA.
- How much can you deposit each year in the IRA account?

The deposits to the IRA account is dependent on the age of the employee in question, for instance; those employees who are younger than 50 are required to pay $5, 000 per year whilst those who are over 50 are required to pay an extra $1, 000 per year.

- How are the contributions treated for tax purposes?

The contribution could extend up to the maximum amount qualified by the employee. On the other hand, it’s from what you pay as taxes that one may deduct what he contributes.

- When you make withdrawals in retirement, how are the contributions and returns on those contributions taxed?

The factors that would determine one’s deductibility of the contributions to an IRA account include; personal income and whether the person in question or his spouse participates in a sponsored retirement savings plan of the company. The IRA collections are taxed at the retirement or in the case there is an early withdrawal and are at charged at ordinary income tax rates.

- A second type of IRA is the “ Roth IRA.” Suppose you open a Roth IRA account.

- How much can you deposit each year into the account?

Employees who are younger than 50, one can save up to $5, 000 into the IRA account whereas, if you’re over 50 years of age then one can get to save up to $6, 000. The amount to be contributed is limited when one earns more than $110, 000 but less than $125, 000 while those who earn more than $125, 000 are unable to contribute to a Roth IRA.

- How are the contributions treated for tax purposes?

- When you make withdrawals in retirement, how are the contributions and returns on those contributions taxed?

For an account that grows tax free are allowed to save after tax dollars. The annual contributions can be withdrawn freely without paying penalties and taxes before they are invested in a Roth. It is only the early withdrawals that lead to payment of taxes.

- In President Obama’s State of the Union speech in January, he stated that the IRS would be creating a new retirement account called the MyRA.

- How will contributions be made to the MyRA?

- What is the income limit for contributions to this account?

- What will the contributions are invested in?

- What existing retirement account does the My RA resemble most?

The new MyRA introduced will involve taxpayer contribution from as low as

$5 per period and with the initial amount of opening account being $25. The MyRA account will allow individuals invest a portion of their earnings into the government bonds treated as Roth IRA's which a common type of individual retirement is.

- What percentage of your annual income will you need to invest in order to meet your retirement goal? What percentage will you need to invest if you wait a year and then start investing?

- How many dollars will you need to invest in the first year?

- Scroll down to the table showing annual data. What will be your " Ending Retirement Balance" in the year you expect to retire?

- What will be your " Ending Retirement Balance" in the last year in the table (presumably the last year of your life)?

- Will you have anything left to leave to your heirs?

The percentage needed to invest is around 6. 7% and the number of dollars needed to invest is $2, 608. The Ending Retirement Balance in the retirement year is $1, 387, 473. In addition, during the last year of your life presumably 84 years, the Ending Retirement Balance is $0. Therefore, at the age of 84 and the Ending Retirement Balance is $0 then there will be no earnings in the year to follow.