



IRS Uses the Direct Recognition Variable Investment Plan to Establish Standards

After more than 18 months of analysis and discussions, the Internal Revenue Service (“IRS”) has approved the design features and functional elements of our Direct Recognition Variable Investment Retirement Plan (“DR-VIP”). Based on decades of law and regulations, DR-VIPs were developed to eliminate the liabilities and limitations of traditional defined benefit plans and hybrid cash balance plans. Most recently, the Pension Protection Act of 2006 restated the law and set the framework for this advanced plan design.

With clear guidance from the IRS, Cherry Bekaert Benefits Consulting now implements DR-VIPs at a growing rate. Many of the new DR-VIPs are used to replace cash balance plans, which have become obsolete due to their benefit and investment limitations plus inherent plan sponsor liabilities. Others are established to increase benefits (i.e., contributions) for key people or to provide greater flexibility, expanded investment alternatives and easier administration.

The kinds of companies that are best suited for DR-VIP retirement plans have more than two highly compensated partners, shareholders or senior management earning more than \$400,000 per year and are looking to contribute more than \$100,000 per year to a qualified retirement plan as well as seeking increased contribution and investment flexibility, administrative simplicity and elimination of all liabilities related to investment performance.

Cherry Bekaert Benefits Consulting LLC is a benefits and risk management consulting firm providing advice in the areas of health and welfare, retirement, risk management and insurance.

Direct Recognition Variable Investment Plan

Frequently Asked Questions

Q: What type of company benefits from a DR-VIP?

A: Any company with highly compensated owners and management looking to increase tax deductible contributions to \$100,000 or more.

Q: What does “VIP” stand for?

A: Variable Investment Plan.

Q: What does Direct Recognition mean?

A: It means that participant accounts are credited with the actual investment performance of the plan.

Q: What is a DR-VIP arrangement?

A: A DR-VIP arrangement consists of three fully integrated elements including a 401(k), profit sharing plan and DR-VIP.

Q: Is every DR-VIP approved by the IRS?

A: Yes, every plan is submitted to the IRS for a favorable determination.

Q: How are plan assets invested?

A: 401(k) and profit sharing plan assets are generally participant directed. DR-VIP plan assets are invested pursuant to the plan sponsor's objectives and directions.

Q: Is a DR-VIP arrangement treated like a 401(k) or profit sharing plan for tax purposes?

A: Yes. A DR-VIP gets the same tax treatment as any other

defined contribution or defined benefit plan including 401(k), profit sharing and cash balance plans.

Q: Are contributions to a DR-VIP plan tax deductible?

A: Yes.

Q: Do DR-VIP assets accrue on a tax-deferred basis?

A: Yes.

Q: Can DR-VIP participant accounts be rolled over to an IRA or other retirement plan?

A: Yes.

Q: Are DR-VIP assets exempt from the claims of creditors?

A: Yes.

Q: Is there a contribution limit?

A: Yes, the same limit that applies to cash balance and traditional defined benefit plans.

Q: Is there a limit on how much can be contributed or allocated to a participant's account?

A: Yes, the same limit that applies to a cash balance plan. However, a DR-VIP contains an automatic conversion feature to roll account balances to an IRA where there are no limits.

Q: Are DR-VIP contributions fixed or flexible?

A: Contributions can be set to automatically decrease when profits are reduced. Optional contributions can be set to automatically increase when profits go up. A significant

percentage of contributions is discretionary.

Q: Are DR-VIP contributions affected by investment performance?

A: No.

Q: Can DR-VIPs become underfunded like cash balance plans?

A: No.

Q: Are DR-VIP assets invested on a participant-directed basis?

A: Yes, up to the first \$60,000. Additional amounts are like cash balance plans where they are invested on a pooled basis.

Q: Do participant accounts earn a fixed-interest credit?

A: No. DR-VIP participant accounts are credited with the actual investment performance of the associated plan assets.

Q: Is there a limit to how much investment return (or loss) can be credited to a VIP participant account?

A: No.

Q: Are plan investment advisors limited in how they can invest plan assets?

A: No, except that investments should be reasonable for a qualified retirement plan.

Q: Can any form of company implement a DR-VIP plan?

A: Yes. DR-VIPs can be used by partnerships, S corporations, LLCs and C corporations.

Defined Benefit Pension Plans Are Not Created Equal

Cash balance plans and other defined benefit (“DB”) plans offer successful business owners opportunities to save in taxes and create retirement income streams for plan participants. However, cash balance plans have limitations and risks that DR-VIPs don’t have. There is a way to avoid being trapped by cash balance plan limitations. By terminating a cash balance plan and starting a DR-VIP, participants can gain access to their investments before retirement age and capture the opportunity to accumulate even more. It’s our solution for eliminating plan sponsor liabilities, putting plan assets under participant control and continuing with tax deductible contributions.

See The DR-VIP Difference

Plan Features	DR-VIP	Cash Balance Plans
Maximum Contribution Per Person	\$300,000 +/-	\$300,000 +/-
Tax Deductible Contributions	✓	✓
Tax Deferred Accumulations	✓	✓
Contribution Certainty	✓	X
Optional Auto-Adjust Contributions	✓	X
No Underfunding Liability	✓	X
No Overfunding	✓	X
Direct Recognition	✓	X
No Crediting Limitations	✓	X
Daily Valuation	✓	X
Fully Automated	✓	X

Suitable Profile for DR-VIP as a Retirement Plan

- ▶ Companies with partners, shareholders and senior management who are earning more than \$400,000 per year and looking to contribute \$100,000 per year to a 401(k), a profit sharing plan and/or a VIP
- ▶ Firms seeking increased contribution and investment flexibility, administrative simplicity and elimination of all liabilities related to investment performance

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