

Own a Business? Consider the Following...

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April 2016

Every business is unique. Plain and simple. But what's not so plain and simple are the retirement plan options available to business owners and the rules that govern them. That world is filled with terms like nondiscrimination testing, interest crediting rate, non-elective contribution, and so on. Beneath all of that however lies a foundation that allows for some extremely powerful planning opportunities.

Most of us are familiar with traditional 401(k) and pension plans. The former is known as a defined contribution plan as benefits largely accumulate from *contributions* to the plan while the latter is known as a defined benefit plan as the plan provides stated *benefits* to participants upon retirement. In a 401(k) the *employee* is responsible for his or her investment earnings within the plan while in a pension the *employer* – yes, you the business owner – bears that responsibility.

While both types of plans traditionally have served as a tool for employee retention, they also provide the opportunity for significant pre-tax income deferral for small business owners under the right circumstances. For a number of reasons, pension plans have waned in popularity over the years relative to 401(k) and other defined contribution plans. That being said, we find that many business owners are looking to defer a significant amount of income with minimal cost to the company (such as in the form of significant business funded matching contributions on behalf of their employees). Keep in mind the maximum you can defer to a traditional 401(k) in 2016 is \$18,000 (plus a \$6,000 catchup if over age 50). For many high income earning business owners, this is not a very exciting number.

Consider now the cash balance plan – commonly known as a “hybrid” plan. Under a cash balance plan, employees are assigned a hypothetical account balance which has both contribution and earnings components yet benefits are guaranteed similar to a defined benefit plan. The biggest planning opportunities arise by combining cash balance plans with defined contribution plans as it allows for more favorable outcomes. Without getting too deep into the weeds, pairing a cash balance plan with a safe harbor/profit sharing 401(k) plan may allow one to defer pre-tax upwards of \$200,000 (based on age) with only a relatively moderate cost to the company! Even for those that may not be good candidates for cash balance plans, other attractive opportunities exist. Today plans are more flexible than ever and can serve as powerful recruitment, retention, and acquisition tools as well.

As with any business decision, a number of factors need to be considered before determining whether a strategy like this is appropriate. Is the business willing to make contributions on behalf of its employees and at what level? Is the number of employees expected to change significantly in the near term? What are the investment goals and objectives of the principals? These are just a few examples. Please speak with your Client Advisor if you are interested in learning more about the planning strategies available to business owners. It's important to carefully consider all possibilities and work closely with trusted professionals who can help guide you through the process.

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