

One of the least known and best ways to put money away—tax deferred.

So many small to midsized companies' owners are missing a great opportunity to defer taxes until retirement on potentially a substantial amount of income. This can be done through setting up a custom-designed retirement plan that allows the owner to put away a large amount of money on a tax-deferred basis. This is not the typical "off-the-shelf" 401(k) profit-sharing plan that most employers establish, which make it quite hard for the highly compensated to save very much at all.

You have probably heard the controversy about the defined benefit plans in place for many government and municipal workers and how those plans guarantee great amounts of income for life to employees when they retire. The drawbacks of these plans to society remain a bonus for owners of private companies that implement them on their behalf.

Here is an example of a midsized company and actual results of an IRS-approved designed plan. A company has two owners, and both are 54 years old. Each takes home \$425,000 per year. The firm has five employees between ages 22 and 43 with incomes between \$32,000 and \$110,000. Currently the company offers a profit-sharing 401(k) plan with a match of 5 percent of annual pay. This plan costs the owners \$14,000 per year to allocate funds to their employees. As the firm's principals, they are each limited to a \$35,000 contribution.

The two principals now investigate a custom-designed, cash-balance plan aggregated with a profit sharing-401(k) plan. Under this scenario, the employer funds a salary deferral of \$200,000 for each owner. The employee's in this scenario receive an employer contribution of \$21,000. As you can see, the employer contributes slightly more to the employee plan as compared with the "off-the-shelf" 401(k)-profit-sharing plan (\$21,000 vs. \$14,000), but is well worth it. The difference is that the two owners were able to put away \$200,000 for themselves in this plan versus \$35,000 in the old plan. The total tax savings for the two owners comes to \$178,925.

The following chart shows the plans comparison

Name	Compensation		Old 401(k) with 5 percent match Cash Balance Defined Benefit Plan and 401k
Owner A	\$200,000	\$35,000	\$200,000
Owner B	\$200,000	\$35,000	\$200,000
Employee 1	\$100,000	\$5,000	\$7,500
Employee 2	\$60,000	\$3,000	\$4,500
Employee 3	\$50,000	\$2,500	\$3,750
Employee 4	\$40,000	\$2,000	\$3,000
Employee 5	\$30,000	\$900	\$2,250

Cost? Typically the cost to set up a plan and have it filed with the IRS is \$4,500 to \$5,000. Ongoing plan compliance and annual IRS filing is approximately \$4,000 to \$4,500. You may be wondering why this

approach has never been brought to your attention. Generally unless your accountant is in the business of tax consulting, they or financial advisor may not have knowledge of these types of plans.

If you would like to see what your company can achieve in deferrals and tax savings, please contact us, and we will provide a proposal specific to your firm and situation. As an independent advisor, we do not receive any financial remuneration for providing this service or acting as intermediary.

Keep in mind; you can also establish such a plan to defer taxes on outside income you receive as a board member, consultant, or a 1099 independent contractor.