

WHICH PLAN IS RIGHT?

Self-Employed Business Owners

In order to maximize the tax deduction available to them, self-employed business owners must work with their tax professionals and retirement consultants to choose the right qualified retirement plan. Key questions and considerations include:

- Current age and salary level/stability.
- What is the desired annual funding level?
- How important is contribution flexibility?
- How will the money be invested?
- Will the business eventually hire employees?

Individual 401(k) plans and our defined benefit plan designs for small companies - DB-LITE plans - offer the greatest deferral opportunity for the owner-only (or owner and spouse) business environment.

DB-LITE plans provide targeted benefits at retirement based on each client's financial situation. Annual retirement benefit amounts may be as high as 100% of pay up to \$175,000 at age 62, and plans often pay a lump sum equal to the "value" of the participant's benefit (similar to the cost of purchasing an annuity) that can be rolled over into an IRA. There are no specific contribution limits, but an actuary must determine and certify the plan's annual contribution requirements. Investment earnings serve to reduce future contribution requirements, while investment losses must be made up via additional contributions.

As a result, defined benefit plans are most beneficial to older business owners with high levels of stable income looking for the highest possible annual tax deduction – in many cases \$100,000 or more.

Due to recent tax law changes, 401(k) plans sponsored by owner-only businesses now offer a tremendous opportunity for income deferral with higher contribution limits than similar SIMPLE, SEP, Profit Sharing, and Money Purchase Plans. Owners and their spouses are both eligible to defer up to \$44,000 of salary each year based on their earnings. Additional "catch-up" contributions are also available to individuals over age 50. Plans can immediately accept rollovers from other qualified plans (IRAs) with funds immediately available for participant loans of up to \$50,000.

Funding levels are discretionary from year to year, which allows a much greater level of contribution flexibility when compared with defined benefit plans.

	DB-LITE Plan	401(k) Plan
Higher Tax Deferral Opportunity	Age 45+	Under Age 40
Annual Contribution Limit	No Limit	\$44,000 as indexed/adjusted
Contribution Flexibility	Mandatory (amount is determined by actuary)	Discretionary (amount may vary from \$0 to \$44,000+)
Investment Return High rates of return ... Low rates of return ...	Reduce contributions Increase contributions	Increase account balance Decrease account balance
Lump Sum Interest Rate High lump sum interest rates ... Low lump sum interest rates ...	Reduce lump sum Increase lump sum	No direct impact on balance No direct impact on balance
Employer Administrative Costs	approx. \$1,750 per year	approx. \$750 per year
Accepts Rollovers	Yes	Yes
Plan Loan(s) Permitted	Maybe	Yes