Business Owner's Business-Funded Retirement Account

ADVANCED MARKETS

OPPORTUNITY FINDER - RETIREMENT PLANNING

CLIENT PROFILE

- Owner of closely-held businesses with "pass-through" taxation (other than C-Corps)
- Looking for additional, tax-efficient ways to save for retirement (usually age 45-55, 10-plus years away from retirement)
- Consistently takes significant income from the business (usually in the highest tax bracket)
- Has ability to make significant and consistent contributions to retirement plan (excess income)

CONCEPT BRIEF

Due to contribution limits, successful, high-income business owners are disadvantaged under the rules imposed on Qualified Retirement Plans (QRPs). As they begin to look ahead to retirement, they realize they need to put away much more than they can get into their QRP, and they're looking for ideas on how to do so as cost-effectively and tax-efficiently as possible.

From the owner's perspective, an ideal plan would:

1. Allow contributions to be deductible and grow tax-deferred
2. Allow contributions to be as large as desired
3. Allow the owner to exclude most or even all employees from the plan

Congress and the IRS have made it impossible to (legally) build a plan that delivers all three characteristics – at least, it's impossible for the owner of a pass-through business. For highly paid non-owner employees, a non-qualified deferred compensation plan actually fits the bill quite nicely. For the owner, any W-2 income deferred increases the company's taxable profit by the same amount. In the case of the owner's salary, he'll pay taxes on it whether it's W-2 income or profit.

But a business owner **can** have an account that delivers two out of three (no contribution limits, discriminatory). And, even though it won't be tax-deductible on the front-end, it **will** grow tax-deferred and may even be a source of tax-free income in retirement.

The vehicle (or wrapper) for the business-funded retirement account is a cash value life insurance policy insuring the business owner; he or his revocable trust will be the policy owner. The corporate checking account will be used to send premiums directly to the insurance company each year, with the premium amount being included in the owner's taxable income. Benefits include:

- Tax-deferred growth
- More generous contribution limits than traditional retirement plans
- Tax-advantaged source of retirement income
- No penalties for accessing before age 59 ½
- No required minimum distributions at age 70 ½
- Pre-retirement death benefit (income tax free) protects beneficiaries
- Unused balance transfers to beneficiaries income tax free
- No restrictions on pledging account value as security for debt
- Possibly enhanced creditor protection relative to bank accounts or investment accounts

Ideal Plans Would:

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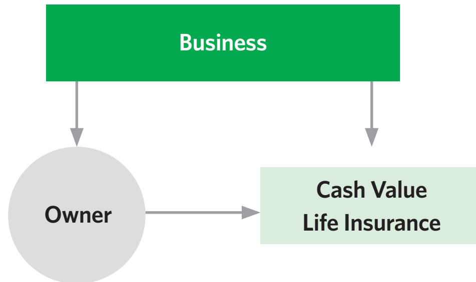
HOW IT WORKS



CONVERSATION STARTER

"We often find business owners are frustrated by the limitations on their ability to contribute to their qualified plan, and who are looking for additional ways to save for retirement. They want a plan that's tax-free going in and that grows tax-deferred. They want a plan they can fund as much as they want without hitting limits. And, they want a plan they can set up just for themselves without having to include employees.

"Non-qualified deferred compensation plans are typically not a fit for business owners – even though there seem to be plenty of ill-informed advisors out there suggesting otherwise. To be honest, there's no silver bullet for the business owner. But, we can share with you an approach that can meet two and a half out of the three things your clients want from a supplemental retirement account."

NEXT STEPS

1. Identify clients who are business owners taxed as pass-through entities
2. Ask them if they are looking for additional ways to save for retirement
3. Determine their budget for allocating excess annual income to retirement savings
4. Review their qualified retirement plan if one exists and transition to non-qualified retirement planning opportunities
5. Share the life insurance retirement plan strategy

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