

# **The Truth About Retirement Savings Plans**

## **What You And Your Clients Need To Know Now**

# Who Is Your Presenter



**Randy Luebke, President Lifetime Paradigm, Inc.**

- **Financial Services 30+ Years**
- **Clients Throughout U.S.**
  - **B2B = Business Owners & RE Investors**
  - **B2C = CPA's, Attorneys, Other Financial Advisors & Mortgage Originators**



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Financial Consulting & Planning**

**The 4x4 Financial Independence Plan<sup>sm</sup>**

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# Agenda

## The Truth About Retirement Savings Plans

## What You And Your Clients Need To Know

- **What** – Are Retirement Savings Plans
- **Why** – You/Your Client Should Care About Them
- **How** – To Implement These Strategies

# Familiar Names & Numbers

- 401(k), 457, 403(b)
- SEP, SIMPLE
- IRA's, Roth's
- Many Others (Handout) – The Quick Guide To Retirement Plans

## A Quick Guide to Retirement Plans for Small Business Owners

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—Elaine Floyd, CFP and Amy E. Buttell

As a business owner, you may be surprised to find that offering the right retirement plan may significantly benefit both you and your employees. Here's an overview of all the major features of each kind of retirement plan, including SIMPLE, SEP, 401(k), defined-benefit, and profit-sharing plans.

The vast majority of businesses in the U.S. employ fewer than 100 workers, yet these employees have less access to retirement planning vehicles and other benefits than those who work for larger companies. That means the 35% of Americans who are employed by small businesses don't have the same opportunity to save for retirement via tax-advantaged vehicles that many others have.

In fact, a recent survey of small business owners reveals that only 33% of all small businesses offer retirement plans even though 75% of those businesses feel a sense of responsibility towards their employees. It's likely that those businesses would be more attractive to potential employees if they offered a retirement plan. And many small business owners may not realize that retirement plan options have become more affordable in recent years, as more options have become available.

### Overview of small business retirement plans

In choosing the right plan, it pays to have a working familiarity with the different kinds of retirement options. Below, we've compiled the major features of each type of plan, along with an overview of benefits.

Another good source of information on retirement plans can be found at the Department of Labor's website. And, of course, the plan providers you work with should be able to provide you with educational materials.

# Many Retirement Savings Plans = RSP's

- **Only 2 Major Categories**
  - **Defined Contribution Plans = DC's**
  - **Defined Benefit Plans = DB's**
- Individual and Group Versions Both
- Pre-Tax (Traditional) and Post-Tax (Roth) Versions
- One Trifecta

# DC's = Most Familiar – 401(k)/IRA/Others

## Definition

**Defined Contribution Plans** (401(k), IRA, SEP, SIMPLE, Profit Sharing, etc.) - Retirement savings plans, for which the IRS defines and limits the annual contributions that can be made into these types of accounts. While defined contribution plans do play an important role in retirement saving, they do not provide a guaranteed amount of money at retirement. Nor do they provide a guaranteed income during retirement. ***Defined contribution plans are simply tax-advantage savings plans that serve only to accumulate assets for retirement in a tax-advantaged way.***

## Break It Down

- IRS Defines/Limits Annual Contributions - \$6,000, \$20,500
- IRS Does Not Limit Growth & Earnings On The Investments
- Important Distinction vs. DB Plans



# DB's = Less Familiar

- **IRS Defines Benefit, Not Contribution**
- **Traditional DB – Pension – Guaranteed Lifetime Income**
  - *Public Sector*
    - Police, Fireman, Teachers
  - *Private Sector*
    - Less Used Today – **Strong Comeback Self-Employed Business Owners**
- **Modern DB – Cash Balance**
  - Pot of Gold - A Pile of Money!

# Defined Benefit Plan Definition

**Defined Benefit Plans** 412(e)(3), Cash Balance, 401(h), etc. - Tax advantaged retirement savings plans that provide specific and guaranteed benefits at retirement, of which there are two general types. One, referred to as a "**pension**", where the "benefit" guaranteed is an ongoing distribution of money paid throughout one's retirement. Or two, referred to as a "**Cash Balance Plan**", where the benefit is a specific sum of money available at retirement.

- ***Important Distinction - The annual contributions and the corresponding tax deductions of a defined benefit plan are almost always substantially greater than those available through a defined contribution plan, thereby, making these plans very desirable among those with high incomes.***

# Cash Balance Plan Drill-Down

- **Over Simplified Example**
  - Work Backwards from Benefit (**Pot of Gold**) to Calc Annual Contribution
  - Minimum - 10 years
  - Minimum - 62 years old
- Could Be More/Less Money/Age/Years
- **Important Point = CB Flexible Terms, Unlike Traditional Pensions**

# DB-CB Drill-Down Further

- **Pot of Gold = \$3.5 million (Approximate 2022)**
- 10 years = \$350k
- 5% ROR = \$300/year contribution
  - Much More to Calculate
  - Need Actuary/TPA
- **Benefits of DB-CB Plan**
  - Much Larger Contributions/Deductions
  - H/W/Spouse/Partner = 2x Deductions
  - **Double-up = 4x > \$1 million in deductions in 1 year**

# DC Drill-Down (IRA)

- IRA = Individual Retirement Arrangement (**Not Account**)
  - **Key Point** = Individual = Not Company Sponsored
  - Personal Plans
- IRA DC Limit 2021 = \$6k + \$1k Catch-up 50 Years Old
- Roth Versions
- Many More Details - Stay At High-Level Today
- Important
  - **Individual = In Addition To Company Plan**
  - Always Available, to Everyone, Regardless of Company Sponsored Plan
  - Not Always Deductible

# DC (Company Sponsored) Plan Drill-Down

## 401(k), SEP, SIMPLE + Others

- Why One vs Another?
- High Level Today - Refer to Handout
- **401(k) vs SEP**

## SEP – CPA's Who Screwed-Up/Can't Do Math

- Why Screwed Up – Missed 12/31 Deadline
- Can't Do Math?
  - SEP = \$1 income = 25 Cents Contribution
  - 401(k) = \$1 income = \$1 Contribution = **More Efficient**

# DC Company Plans - Focus 401(k)

- 2021 401(k) DC Limit = \$19,500 + PS = \$58k + \$6,500 catch-up = \$64,500
- 2022 401(k) DC Limit = \$20,500 + PS = \$61k + \$6,500 catch-up = \$67,500

# SEP – Let's Do The Math

2021

$\$58,000 \text{ Contribution} \times 4 \text{ Requires} = \$232,000 \text{ Income}$



# What's The Problem?

- Must Have Income = **Subject to Self-Employment Taxes**
  - **FICA = 12.4%**
    - FICA Limit 2021 - \$142,800 = **\$17,707 Taxes**
    - FICA Limit 2022 - \$147,000 = **\$18,228 Taxes**
  - **Medicare = 2.9% On All Income/No Limits**
  - Plus, **ACA = .9% > \$200k Single/\$250k Married**
  - Plus, The More Income ...
    - More Phase Outs
    - Alt Min Tax
    - IRMAA Hits to Medicare Premiums

# MAJOR POINT #1

## RSP's Don't Save Taxes

- Sold That Way
- It's a Lie

## RSP's Defer Taxes

- 1 True Exception, My Trifecta, The 401(h)

# If...

- Taxes Lower At Retirement, Deferral = Good Strategy
- Taxes Higher At Retirement, Deferral = Bad Strategy
- Everyone Has An Opinion On Future Tax Rates
- My Opinion? No One Knows For Sure
- **What We Do Know For Sure Is That...**
  - Government Can/Will Change Tax Laws
  - Personal Circumstances Can/Will Change Too

# What We Also Know For Sure

- **FICA** = Tax That Costs Your Clients Money Today
- **Medicare** = Costs Today
- **ACA** = Costs Today
- **Plan Admin Fees** = Costs Today
- **Employer Contributions for Employees** = Costs Today
- **All These Costs**; Employer and Employee Costs Must Be Considered
- **Why?**
  - **Costs Are Costs, and Deferrals Only Kick The Can Down The Road**
- **Deferrals Do Not Provide Actual Tax Savings – Sold That Way!**

# RSP's = Deferrals, Not Savings

- Why Sell Them?
- Why Do I Recommend Them?

# General Philosophy – 2 Points

## 1. Defer Everything You Can, Today

- Don't Defer - Pay Taxes Now
  - \$'s Gone Forever/Never Get It Back
- Do Defer
  - **Buy Time** – Find Opportunities To Reduce Tax Liability In The Future
    - Downturn In Income/Bad Year
    - Retirement With No/Low Earned Income
    - Tax Incentives = Opportunity Zones, Go Zone, Always Something

## 2. Diversity Tax Strategies – Various Types Tax Buckets

- Don't Put EVERYTHING in Tax-Deferred Accounts
- Consider Roth's – Cash-Value Life Insurance
- Captive Insurance Companies

# MAJOR POINT #2

## 1. RSP's = Not For Everyone

- RSP's = Not Boiler Plate/One-Size-Fits-All Strategy – Sold That Way!
- RSP's = Very Confusing/Complicated
- RSP's = Difficult To Find Objective/Accurate Advice for Help

## 2. Client's Need Help & Therefore, Your Client's Need You

## 3. You Need to Present RSP's To Your Clients

- If Fiduciary, It's Your Duty – Provide Information Best Interest
- If You Don't Provide This Information, Your Competition Will
- Financial Advisors – **RSP's Holy Grail AUM, Life & Annuities**
  - *Sticky Money*
  - *Grow, Year After Year!*

# Super(k)

## Not a “Thing” – Marketing Term

- **Super(k)** is comprised of 5 elements; a 401(k) and a Profit Sharing Plan, a Cash Balance Plan and a 401(h) plan, as well as a life insurance option. Together, the Super(k) is designed to maximize the total annual tax-deductible contributions, while simultaneously working and to maximize the total financial benefits available at retirement.
- **Super(k) = Big Deductions & More Money At Retirement**
- **Super(k) = Minimize Employer/Owner Expenses As Well**



# Back To Efficiency – Remember Bad Math?

- SEP = 4 to 1
- 401(k) = 1 to 1

# Efficiency of a 401(k)

## Example

- $\$100\text{k Income} \times 15.3\% \text{ (FICA + Medicare)} = \$15,300 \text{ Taxes +++}$
- $\$100\text{k} \times 25\% = \mathbf{\$25,000 \text{ SEP Contribution}}$
- $\$100\text{k} = \$19,500 \text{ 401(k)} + \$25\text{k PS} = \mathbf{\$44,500 \text{ Contributions}}$
- **A \$44,500 Tax Deduction**
- **Which Contribution/Deduction Will Your Clients Prefer?**

# What Is Profit Sharing?

- Discretionary and Additional DC Plan
- Formula Based
- Funded Before Taxes Are Filed
- September, The Following Year!

# Back To Efficiency – S-Corp

## S-Corp Owner Wear 2 Hats

- An Employee & An Owner
- Employee = W2 Income = FICA + Medicare +++
- Owner = K1 = No FICA, No Medicare

**Savings = Salary/Dividend Split**

# Salary/Dividend Split

\$100k Income- Split \$75k W2 x 15.3% = \$11,475 Tax = \$3,825 Tax Savings

- **Real Tax Savings, Not Deferral** = Money In Client's Pocket
- **Client's Like** Money in Their Pockets
- **Clients Like** Advisors That Put Money In Their Pockets!

\$75k W2 = \$19,500 401(k) Contribution

\$75k x 25% = \$18,750 PS Contribution

401(k) + PS = \$38,250 Total Contributions

**Question – Will Your Clients Want...**

- **To Pay Less In Taxes?**
- **To Put \$3,825 More Money In Their Pocket?**
- **To Make Bigger Contributions to Their Retirement?**

# Major Point #3 – Present RSP's To Your Clients

## CPA's– Show Your Expertise

- Don't Just Defer Taxes
- Show Your Clients How to Save Money

## Attorneys – Show Your Expertise

- Don't Just Defer Taxes and Save Your Clients' Money
- Create Additional Asset Protection

## Financial Advisors

- **Work with CPA's & Attorneys** – Defer Taxes/Save Money/Provide Asset Protection
- **Manage More Money** – Sticky Money, That Grows Every Year

# End Of Day

## To Implement an RSP or Not, Is Not The Issue

### JUST Do The Analysis, That's What's Important

- RSP Reviews = Happy Clients
- RSP Reviews = Opportunity to Highlight Your Expertise
- RSP Review Differentiates/Decommoditizes

### **If You Don't Do The Analysis...**

- Likely Costing Client Money
- Your Clients Won't Be Happy When Your Competition Points This Out
- Ultimately, **Could Cost You A Client**

### **RSP's May or May Not Be Right for Your Client**

**RPS Analyses, They Are Always the Right Thing to Do!**

# Individual vs. Group/Company Plans

## Individual vs. Group 401(k) Plans

- Individual = Solo(k)
- Solo = You + Spouse/Partner
- Solo = + Kids
- Solo = Business Partner + Spouse + Kids
- Solo Plans = Low/No Startup Costs & Low/No Ongoing Admin Fees
- Your Clients Will REALLY Like these!

## Group Plans

- **1 Non-Partner/Non-Relative Employee = Group**
- Group Plans = Exponentially More Complicated
- Group Plans = More Expensive
- Group Plans = **Your Clients Need Your Expertise, Even More!**



# End Of Day

**RSP's = Tax Deferral, Generally Not Tax Savings**

**Roth = Opposite**

- No Deduction Now - Grow Deferred/Withdraw Tax Free

**401(h) Trifecta**

- Tax Deductible Today
- Tax-Deferred Growth
- Tax-Free Withdrawals For Healthcare Related Expenses
- Health Savings Account On Steroids
- DB Plan = Another Pot of Gold = \$500k
- More,... Another Day

# MAJOR POINT #4

## Several Times/Several Ways

- **Your Value** = Solutions You Provide To Your Clients
- **Your Service's Differentiation** = Your Ability to Decommoditize
  - *CPA's – Want To Be More Than Expensive Turbo-Tax*
  - *Attorney's – Want To Be More Than, Legal-Zoom +*
  - *Advisors – Want To Do More Than Trash Your Competition*
- **Embrace The Complicated & Confusing/Don't Avoid It**
  - **Do, Present/RSP Review to Your Clients and Prospects**
  - **You, Don't Need to Become An Expert On Your Own**
  - **Partner/Team-Up With Us – We Can Make You An Expert**

# What/Why – Now How?

## Every Current & Prospective Client Needs an RSP Review

- Business Owners – Even (or Especially) If They Have One Now
- Individuals Too - **The Smart 401(k) Super-Charger**<sup>sm</sup>
  - Maximize “W2 Only” Employee’s Benefits
  - Suggest Clients Contribute to Multiple 401(k)’s + IRA’s
  - Encourage Side-Gig - Create Deductions/Additional RSP Opportunities
    - Landlords = Side-Gig
    - Property Manager or Manager of Managers = Solo 401(k)
    - Kids = Income-Shifting, No Allowance, Pay to Work = Roth
- So Many Opportunities To Help Your Clients
- So Many Ways to Demonstrate Your Value

# Here's Our Process

## **Schedule 25-Minute Joint Client Interview**

- *Determine Client's Needs, Opportunity, Fit*
- *No Cost*

## **Then, Choose - DIY or 2 DWY Options**

# Our Process – Meet, Assess & Choose

## DIY

- Provide Direction, Guidance and Resources
- RSP In-A-Box
- Small 1-Time Fee

## DWY 1 – Plan Consultant

- Provide Direction, Guidance and Resources
- Turnkey Implementation – Handhold Entire Process
- Ongoing Guidance and Consulting
- Flat Annual Fee
- No AUM Fees – **Perfect for Financial Advisors**

# Our Process – Meet, Assess & Choose

## DWY 2 – Plan Advisor (Traditional Model)

- **Turnkey Everything**
  - Provide Direction, Guidance and Resources
  - Full Turnkey Implementation
- Ongoing Guidance and Consulting
- Plus - Investment Management
- Employee Education
- AUM Fees – **Perfect for CPA's & Attorneys**

# Our Process - Summary

## **DIY - Assess & Guidance**

- RSP In-A-Box/1-Time Fee

## **DWY 1 – Plan Consultant**

- Direction Guidance & Resources
- Full Turkey Implementation
- Ongoing Guidance & Maintenance
- Annual Flat Fee & No AUM

## **DWY 2 – Plan Advisor (Traditional)**

# Self-Directed Investing

**Wall Street Definition** = Picking Stocks, Bonds, Mutual Funds

**Main Street Definition** = Much More

- Real Estate
- Notes
- Gold
- Crypto
- Concert Tickets
- Almost No Limits

**Appeals to Business Owners, Real Estate Investors & Millennials**



# Summary

- Everyone Needs To Save For Retirement
- Everyone Wants To Reduce The Taxes They Pay
- No One Can Do Well This On Their Own
- **Everyone Needs Help**
- If You Don't Help Your Clients, Someone Else Will
- You Need To Be There, To Help Your Clients
- We Will Be Here, To Help You

# How To Get Started

## 1. Get Up To Speed On Retirement Savings Plans

- Download Our Guide & Read It!
- Search Our Website
  - Podcasts, Articles, More About RSP's
  - Search-word "Super"

## 2. Connect with Lifetime to Define = Our Fit/How We Will Work Together

## 3. Book a Joint Client Meeting – Together, Do An RSP Review!

- Complete On-line Fact Finder
- Schedule On-Line Appointment

### A Quick Guide to Retirement Plans for Small Business Owners

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