



Retirement might be closer than you think!

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Pension News

Fully Insured Defined Benefit Plans Under Section 412(e)(3) The Best of All Worlds: Tax deductions *and* Guaranteed Lifetime Income or Lump Sums at Retirement.

Are you a successful professional, a self-employed person, or a small business owner?

Is your business doing very well, and are you now looking for a way to put larger amounts of **deductible money** into your retirement accounts? A Fully-Insured DB plan under section 412(e)(3) plan might be the answer. Are you fed up with being knocked around by turbulence everyone has experienced in the investment markets in recent years? How about a **fully-guaranteed pension account** that may completely replace much of your current income in retirement!

If all of this sounds appealing, then keep reading.

The Fully Insured Defined Benefit Plans / 412(e)(3) plans is one way to receive tax deductions up to \$350,000 a year by placing money into a retirement account in a short amount of time. It is a unique fully tax-deductible defined benefit plan. Simply described, defined benefit means that you create a specific amount of income (The benefit) in a specific way, to be paid out by way of exact calculations set out by a plan document: for the rest of your life. It may sound a little scary but National Pension Partners has the documents and the experience to help you implement your plan with ease. Principals at National Pension Partners have over 15 years of experience in designing and maintaining these plans.

The Fully-Insured Defined Benefit (FIDB) or 412(e) (3) plan creates a vehicle that can provide a very high pension income for retirement and a current large tax deduction.

Deductions

If you could deduct \$350,000 or more per year, would you want to take a look?

Just how high do the deductions go? The calculations are complex. Basically, the maximum allowable limit is about \$350,000 per year (indexed for inflation) in deductible contributions for individuals. In addition, you can also keep your 401k and have a profit sharing plan as well. Go to www.nationalpensions.com for more detail that explains the whole process.

How the Plan Works

The plan is a combination of a guaranteed pension annuity and a pension life insurance policy both specifically designed for defined benefit plans under section 412(e)(3). The idea is to contribute enough money to create a **guaranteed income stream** during retirement. Your contributions are split unequally based on actuarial formulas between the insurance policy and the annuity. The insurance policy provides a preretirement death benefit and builds cash value at a guaranteed rate of interest as does the annuity. Because of these guarantees and the large contributions, it is easy to predict the exact income that will be available at a given retirement date in the future.

On the flip side, the guaranteed income is interest rate based. One detail that should be considered is that the Fully Insured Defined Benefit Plans /412(e)(3) plan is funded by interest-bearing investments and not by growth investments. By combining these plans you can create three pools of money for retirement. (1) The Defined Benefit plan providing guarantees and both a (2) profit sharing plan and (3) 401(k) plan to provide a growth-oriented alternative. This may be important as you look forward to the future.... guarantees to provide stability and growth investments to be sure that your inflation risk is covered.

Is The Plan Right For You?

The Fully-Insured DB (FIDB)/412(e)(3) plan works best with well-established companies that have excess cash every year with which to make contributions to a plan. **Ideally, you would be a small closely-held business with few employees, or a highly compensated self-employed person (a typical example is a professional service provider such as an engineer, architect, physician or dentist).** You can have other retirement plans set up along with this plan. If your income is very unpredictable each year, it may not be for you. If you are getting a late start on your own retirement, then it could be a perfect fit. If you are working on a second career in consulting or starting a small business, it could be a great plan for you as well.

The important questions to ask yourself are “intent” questions. Are you willing to fund a pension plan until it is funded to a level to provide the income you need? Are you willing to make contributions every year no matter how the business performs?

What about a 401k Plan?

In a 401k for example, you can elect to defer salary into the plan up to \$18,000 in 2015. If you are over age 50, you may add another \$6,000 for a total of \$24,000. Many people do that, however **it is not tax efficient**.

Why?

The 401 (k) funds go from the company to an individual in the form of salary. They are then “deferred” into the 401(k). In this case, Social Security and Medicare taxes are paid on that income prior to the deferral to the 401(k). *(6.2% for Social Security and 1.45% for Medicare. In addition, the employer must match this contribution-6.2% Social Security and 1.45% Medicare making a grand total of 15.3%).* For example if you would have deferred \$24,000 in the year 2014, \$3,672 in payroll taxes would have been paid.

Why is the Fully-Insured Defined Benefit Plan / 412(e) (3) Plan More Tax Efficient?

The 412 (e) (3) plan is a fully-insured defined benefit plan. The contributions come from your company into the plan. Contributions to the plan are not from salary deferral. If the company contributes \$24,000 into the defined benefit (FIDB) plan, because it is not received as salary, then deferred, no social security and Medicare taxes are paid on the amount contributed to the Fully-Insured DB plan. Hence, the \$24,000 goes to work immediately without incurring a “tax load “. The individual and the company saves about \$3,672 in payroll taxes. This is why in some situations a “Solo” Fully-Insured DB plan may work better and provide more tax benefits than the same contributions made to a Solo 401(k) plan.

Why are these plans getting in the news?

Legislation in the last decade has encouraged the establishment of small-business retirement plans.

A major part of the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA) was to encourage the establishment of small-business retirement plans. As an incentive to small-business owners, the tax-deductible dollar limit and the allowable compensation percentage for such plans has increased. In 2008, the efficiency of these plans was greatly enhanced by *The Worker, Retiree, and Employer Recovery Act (WRERA)*, which was passed in Dec. of 2008. This brought positive changes to the qualified retirement plan landscape. Of great importance is IRC 404(a)(7). This new provision now **allows business owners to deduct contributions to both a defined benefit plan and a defined contribution plan** such as a DB plan and 401(k) and/or profit sharing plan. Previously, there were limits on the profit sharing contribution deduction if the plan was paired with a defined benefit plan.

What to Do Next

If the Fully Insured Defined Benefit Plans/412(e)(3) seems like a good fit for you, the next step is to contact a pension consultant or advisor to learn more about how they work. Be **aware** that not all pension consultants or advisors know how this plan works so the advice you get may be wrong. Qualify the advisor. Ask specifically how many 412 (e) (3) plans the advisor or third party administrator has put together or administers personally. Ask which vendors they would use for the plan investments. If they do not know right away, then they have probably not put many, --if any-- of these plans together, much less done it successfully. Not all insurance companies will have products for pension plans like a FIDB plan, so be sure to ask a lot of questions. If the answers do not seem right, then do not go through with it. There is a set up cost to all qualified plans which are lower provided there are no common law employees but may be slightly higher for larger groups and for which you or the business may receive a \$500.00 tax credit (see IRS Form 8881).

Don't put your retirement plans at risk working with inexperienced advisors. With the potentially large deductions, the PBGC, IRS and ERISA are all involved as they are in any qualified plan. You want to be sure that you work with an experienced advisor or pension consultant.

Contact an experienced third party administration firm that employs tax attorneys, CPAs and enrolled actuaries and that has a track record of successfully implementing these plans.

National Pension Partners, is an internet-based pension plan design and administration firm operating in 49 states. National Pension Partners has a staff of enrolled actuaries, CPAs, CFPs and tax attorneys who work to help plan sponsors with their retirement plan objectives and that their qualified plans are in compliance. CEO of National Pension Partners, Nicholas Paleveda, MBA J.D. LL.M. Nick has over 33 years' experience in law, financial services, business and pension planning. Nick is an Adjunct Professor in the Graduate Tax Program at Northeastern University as well as a guest lecturer on pension law and taxation for several colleges and educational institutions across the country. Maxwell A. Coulliette, CFP, CLU, ChFC, is President of National Pension Partners, Max has over 33 years of experience in financial services and working with retirement plans. Max is a regular presenter of CPA/CPE, Insurance professional CE, CFP/CE and a regular speaker at various industry and education programs.

For more information, contact National Pension Partners (877) 252-1692 or go to www.nationalpensions.com