

Perfect Employee Benefit Storm

Professionals and business owners, in their 30's, 40's and even early 50's, should think twice about a 412i plan. Payroll structures that favor 412i may look tempting to owner/stockholders, but alternative approaches will result in more cash at retirement and higher total tax deductions along the way.

The allure of a 412i is the high sustained tax deduction, but if the 412i plan is implemented prior to the business owner's mid 50's, the resulting tax deduction is not as impressive as it can be at older ages. Furthermore, the implementation of a 412i plan, excludes the possibility of a 401k or profit sharing plan.

A payroll structure that allocates a high percentage of 412i contributions to the business owners will also allocate a high percentage of 401k contributions to the accounts of the owner and executive classes. Therefore, by electing a 401k now and a 412i later, the business entity maximizes its available tax deductions, while also generating significantly greater retirement cash.

The 412i deduction increases with age, delaying the 412i implementation for 5 to 15 years, does not forfeit the tax deductions it merely defers them. On the other hand, substituting an immediate 401k generates a substantial tax deduction (albeit not as large as a 412i) and allows the business owners to make tax deductible investments and accumulate the gains tax free. In 5 to 10 years, when a nest egg of \$1 to \$2 million in liquid assets has been created, the 401k can be terminated and the accounts rolled into individual IRAs. A 412i plan can then be installed which will maximize the deductions for the final working years (usually peak earnings years) and add an extra element of guaranteed retirement income to the business owner's retirement plan.

GEAR, Guaranteed Entry Age Reserve, is a method of providing permanent life insurance as an employee benefit under either Section 79 or 419A(f)(6). The GEAR concept provides a tax deduction and a life insurance benefit that is remarkably similar to those of a 412i plan. GEAR is a group (as opposed to a pension) product, but a payroll that is favorable to a 412i is normally GEAR friendly also. GEAR deductions can spread over a number of years and GEAR conversion options are highly favorable to owner/retirees.

A combination of GEAR and 401k in the earlier years can generate a larger tax deduction than a 412i alone. The GEAR continues for 15 to 20 years, but the 401k is temporary and is replaced with a 412i in the final 5 to 10 working years. This closely integrated combination multiplies the tax deductions available to the business or profession, while ballooning the cash available during the retirement years. It is a win, win for the business owner or professional.