

SilverStone Group

EMPLOYEE BENEFITS

Defined Benefits

# A New Trend

## *Personal Pension Plans*

by Donn Jones, FSA

*Personal Pension Plans are designed to satisfy the specific interests of professionals and business owners who desire to increase their retirement savings through larger tax-deductible contributions into a qualified retirement plan.*



These solutions include cash balance plans, cross-tested defined contribution plans and combinations of other defined benefit and 401(k) profit sharing plans. These are often custom designed in order to address specific objectives. Business advisors and Actuaries to Advisors have begun working together to bring solutions to the attention of interested parties.

### Business advisors

Clients of business advisors may be individuals, professionals and business owners who desire larger retirement plan contributions. First-hand knowledge of such clients provides business advisors with the opportunity to evaluate the suitability of these plans.

### Actuaries to Advisors

Actuaries to Advisors (A2A), a practice area of SilverStone Group's Retirement Benefits division, includes a dedicated team of actuaries and consultants that provides desired plan design assistance, plan implementation guidance and recurring annual support services. Working hand in hand with the business advisor, the plans recommended by A2A will provide the "best fit" for a client's desired objectives. Professionals and business owners can be assured that their interests will be recognized and reflected in the solutions offered for consideration.

### Candidates for these plans

**Professional groups** – Prospects include physicians, dentists, attorneys, accountants, engineers, architects, financial advisors, insurance agents, independent sales representatives and software developers. If desired, the plan designs for these groups and others can incorporate different contribution and benefit structures for each of the principals.

**Business owners** – Any successful small business owner may be a candidate.

**Individuals** – Any successful sole proprietor may qualify. Candidates may also include corporate board members, university professors with consulting income, coaches with earnings from sports camps or others who want to defer income taxes on primary or supplemental income.

**Qualifying the prospect** – After identifying a candidate, it is important that the business advisor evaluates the suitability of any qualified retirement plan for each candidate by asking how well the qualified retirement plan fits with the candidate's objectives and resources. Following are important considerations to include in this evaluation:

- **Desired Annual Contribution** – To offset and justify administrative costs, the annual contribution should generally exceed \$50,000 for the principal.

- **Compensation of Principals** – Typically these plans appeal to those whose annual compensation exceeds the current qualified plan pay cap of \$245,000.
- **Eligible Compensation** – Only eligible compensation can be considered. This includes W-2 income, or "earned income," for sole proprietors and partnerships.
- **Ages of the Principals** – If the desired contribution is less than \$50,000, a 401(k) or profit sharing plan may be the best option. Other plan alternatives offering larger contributions are available for principals over age 40.
- **Contribution Commitment for Employees** – Full-time employees, as well as principals, will be eligible for these plans. Contributions of at least 3-4% of pay for these employees should be acceptable.
- **Consistent Financial Performance** – To provide maximum advantage, any qualified retirement plan should remain in place for several years. Therefore, the plan design should address the ability of the plan sponsor to contribute year after year at an acceptable level. Plan changes can be adopted to reflect unanticipated fluctuations in income, but, ideally, these changes will be the exception, rather than the rule.

### Consider a contribution illustration

A contribution illustration identifies the contribution's flexibility and documents the eligibility and benefit provisions that apply to the principals and other eligible employees included in the recommended plan design.

To assure that the illustration is accurate, the business advisor should suggest a desired contribution for each principal. Since each principal may have different objectives, specific benchmarks will improve the illustrations. The contribution illustration displays the contribution allocation for each principal and for all other eligible employees. Often, an initial contribution illustration is simply the starting point in the planning process. Additional updated illustrations can be assembled with a refinement of the objectives.

Personal Pension Plans are quickly becoming popular solutions desired by business owners and professionals. As noted, the first step is to identify and qualify candidates, followed by an evaluation of the suitability of the plan options. From there, A2A can illustrate specific plan options for consideration by the business advisor and potential plan sponsor.