better k by rebalance

Case Study on Tax Savings*

How a high-earning business-owner can save on taxes to Uncle Sam by more than $100,000 annually[1,2]

Total Annual Tax Savings:

$159,000 per year

At a Glance

Situation

- 60-year-old physician
- Owns a practice with nine employees
- Practice currently has a 401(k) plan in place
- Physician is hoping to reduce her tax bill and expedite retirement to retire in the next 10 years

Possible Benefits

- Tax bill reduction of $159,000
- Retirement savings increased from $30,000/year to $397,500/year
- Opportunity to retire even sooner than hoped

* The following case study is fictitious, and for educational purposes only. This case study is based on real data and tax savings.

[1] This is based on a 60-year-old business owner saving $22,500 in individual contribution and $7,500 as a catch-up contribution in her 401(k), $43,500 as Profit Sharing, and $324,000 as Cash Balance, per 2023 contribution limits.

[2] Assumes a personal tax rate of 40%.

Challenge

For over three decades, a 60-year-old physician has worked diligently to create a thriving business within her practice. For her nine employees, she currently has a Safe Harbor 401(k) Plan in place.

Despite this retirement planning strategy, the physician experiences an unbearable tax burden that correlates with her successful, high-earning practice. Unfortunately, she sends checks to Uncle Sam every year to cover the taxes for both her business and herself as an individual.

Earlier in her career, she faced debt from medical school loans and from investing money into her growing business. As a result of this, she was not able to begin saving for retirement until she was in her 40s, so she is behind in her retirement savings. Her hope is to retire in the next decade, but with her growing tax burden, she is afraid that she will not be able to save a sufficient amount in her 401(k) plan.

Objective

For her employees and herself, the physician sponsors a Safe Harbor 401(k) Plan. With this Safe Harbor, the physician can put away $30,000 per year into the plan on a tax-deferred basis, while still passing compliance testing. Unfortunately, this is not enough to set her on a path to comfortably retire within 10 years when she hopes to.

The physician's imminent goals include:

1. Retire in the next 10 years
2. Reduce tax liability

Investing in securities involves the risk of loss. Past performance is no guarantee of future results. Intended for use by employers considering or sponsoring retirement plans; not for personal use by plan participants.

Solution

The physician consults with Rebalance to help her evaluate and strategize additional options to optimize her retirement plan. This includes adding two additional elements to the retirement benefit at her practice:

1. Cash Balance Strategy
2. Comparability Profit Sharing Plan

Both of these programs significantly impact the physician's ability to save. While she could only contribute $30,000 annually towards her retirement previously, the Profit-Sharing Plan now gives her the opportunity to save an additional $43,500 per year as a tax-deferred employer contribution. By adding the Cash Balance Plan, she can contribute an additional $324,000 of tax-deferred business profits toward her retirement savings each year.

Her total allowable contribution increases from $30,000 to an incredible $397,500 per year.[3]

As a result, she reduces her tax burden by $159,000 per year[4] and uses money that would otherwise have gone toward taxes to fund **one-third** of her annual retirement contribution. The combination of tax savings and accelerated retirement savings puts her on track to retire comfortably.

[3] Cash Balance Plans come with some risks. Consult with a professional to determine if a Cash Balance Plan makes sense for your business.

[4] Assumes a personal tax rate of 40%.

Cash Balance Benefits and Drawbacks

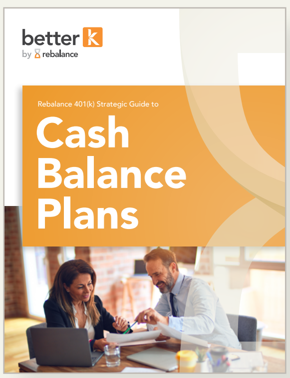
Benefits

- Lump sum payouts
- High-contribution limits
- Tax-deferred
- Rollover options

Drawbacks

- Taxable distributions
- High maintenance fees
- Inflexibility with contributions

Additional Resources



Cash Balance Plan Guide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5 Crucial Elements of Small Business Retirement Plan Design

Retirement Plan Design

Are You ready for a comprehensive review of Your Small Business 401(k) Plan?

Please feel free to schedule time with David Ranney, VP of Sales at Rebalance, at dranney@rebalance360.com

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