The Baby Boomer Emergency Retirement Repair Plan This is an excerpt from an article that appeared in the November 2006 Escape Artist

The Baby Boomer Emergency Retirement Repair Plan
By Larry Grossman

The first of the Baby Boomers turned 60 this year. I happen to fall right into the middle of this group (those born between 1946 and 1964), so I'm pretty familiar with the financial challenges facing many of my peers. For many, right at the top of the list IS the fact they're grossly unprepared for retirement.

Survey after survey shows that many graying boomers still have no idea how much money they'll need to retire comfortably. Worse, in a country with a negative personal savings rate, millions are far behind on their wealth accumulation goals.

If you or someone you know is headed for a severely under-funded retirement, fear not. I'll show you how you can create the retirement you want – even if you've fallen far behind on building your nest egg.

So clearly, most of us do not contribute enough for retirement. Please, max out on your IRA, SEP and or 401k contributions if at all possible. But now let's talk about the greatest savings plan available called a Defined Benefit Plan.

I mentioned Defined Benefit Plans recently and was surprised to learn how few people know about them. I was even more shocked how little these life saving plans are actually discussed. A DB plan is a plan designed to pay a target level of benefits at retirement age. These benefits can be based upon a fixed percentage of your average salary, a flat monthly dollar amount or a formula based on years of service in a business.

Most DB plans I have seen simply state the maximum allowable contribution limit based upon the participant's age. Going back to the example we were using, a 50-year-old who wants to retire at age 60 can contribute approximately US$168,000 per year.

Compare this US$168,000 to the garden variety retirement plans' contributions. With a 401k, you can only contribute up to US$15,000 (and if you're over 50, you can add an extra US$5,000 a year to catch-up). SEP retirement plans are far more generous. You can contribute US$44,000 or 25% of your income up to US$220,000 to your SEP. But that still only leaves you with a maximum of only US$55,000 a year.

Let's take a look at some real life examples.

Contribute Even More Than US$168,000 a Year with a DB Plan
Recently, I met S.W. at a Sovereign Society conference. S.W. is a retirement planner's dream client. He's a 51-year-old, self-employed physician with no other employees. S.W. makes a nice living with just over US$350,000 per year. And S.W. was shocked when I told him he could be contributing approximately US$177,000 into a DB plan.

Most of us won't be quite as lucky as S.W. We'll either have other employees to deal with or we won't make his high income. But, amazingly, a DB plan can work nearly as well for most business owners.

Here is another example:

Example: Owner Grabs 90% of the Business's Retirement Funds

Employee	Age	Comp.	Contributions	% of Total
Owner	60	$205,000	$144,034	90.1%
Emp 1	40	$40,000	$7,074	4.4%
Emp 2	35	$35,000	$4,371	2.7%
Emp 3	30	$30,000	$2,707	1.7%
Emp 4	25	$25,000	$1,656	1.1%
Total			$159,842	100.0%

Yes, the owner still has to pay out-of-pocket to cover his employees, but the owner still ends up with over 90% of the total contributions. And these are very simple examples. Far more complex plans allow you to target highly compensated employees while excluding others. These plans, called Tiered Defined Benefit Plans, let you assume different benefit levels for each participant. That means you can make greater contributions for some employees while minimizing contributions for others. This factor alone was once one of the biggest deterrents to DB plans.

What does this mean to you? This means if you own your own business or can influence your retirement plan in any way, then it may not be too late to save for retirement with a defined benefit plan. Now that I have scared the heck out of you, let's talk about a DB plan's other benefits.

Tax Savings & Global Investments
A DB plan is the number one legal way to reduce your taxes. That's right I said the number one way to reduce your taxes. Just like any other retirement plan, the contributions you make to a DB plan are all pre-tax. So if the 50-year-old doctor S.W. contributes the full US$177,000 to his defined benefit plan, he only pays taxes on his remaining income. That means out of a US$350,000 income, he only pays tax on US$173,000.

These defined benefit assets can also be invested virtually anywhere in almost any kind of investment. We're not just talking about the traditional mutual funds you see in a 401(k) - we're talking about a world of investments available at your finger tips. You can invest in real estate, both domestic and foreign, precious metals, foreign bank accounts, non-U.S. currencies and many, many other investments. If properly structured, it's actually quite easy to allocate and invest your retirement plan assets anywhere in the world.

Plus, these assets grow on a tax-deferred basis until you start to withdraw them at retirement. That means the law of compounding work is working in your favor as you continue to save assets you would normally have to pay taxes on. A Defined Benefit plan allows you to maximize your retirement savings in a way no other retirement plan does. This plan reduces your income tax and gives you the freedom to invest your retirement plan anywhere in the world.

If you are one of the fortunate ones who are in a position to implement a DB plan, I would urge you to consider it today. For more information on DB plans, including a custom designed plan for you, please contact my office for additional information.

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Author's Note: The development and implementation of a custom designed retirement plan can be a complex task, as it is with all areas of financial planning, requiring a high degree of technical expertise. For the sake of simplicity in trying to explain a highly complex subject, I have made certain assumptions and have rounded numbers. A full explanation of this topic or any assumptions made are available upon request.

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