A “White Paper” On

The Development of a Retirement Plan

Subtitle

How to Generate

Four Times the Interest on Your Retirement Plan Than You are Doing Now

Joseph V Leech

Senior Advisor, Stryde Savings

A “White Paper” On

The Development of a Retirement Plan

How to Generate

Four Times the Interest on Your Retirement Plan Than You are Doing Now

Joseph V Leech

Senior Advisor, Stryde Savings

I think we can start with agreement on the fact that the retirement plan value is going to principally be developed from the growth of funds within the plan.

If so, could we also agree that if we were to start out with a relatively large base from which to grow...let's say for example purposes... $1,000,000.... placed in the fund from “day one” that over the growth period of the fund (20 years?) that this would produce a greater amount of money than a “piecemeal” investment of a few thousand dollars a month or year... even with compounding?

Statistics, calculations, etc can show this to be the truth time and time again, but based on certain specific conditions being present:

- The money initially invested must be free of, or protected from loss. In other words, while most retirement investments are in some manner invested in “the market”, it's almost a certainty that over a given period of time, especially if that time is 20 years or so, that market downturns, and hence losses, would be inevitable unless somehow protected.

- The money invested in the plan must be able to work as hard as possible without distractions. In the world of finance, those “distractions” are various fees and commissions. So it therefore follows that the investment mus have the lowest, over time, fees/costs distractions. The “catch word” is “over time” where the absolute costs are known.

- As money grows, everyone knows that in some way, taxes are going to be levied. The secret, if there is one, is to structure the plan to take maximum advantage of tax laws to minimize this. Tax minimization can be occurred in two general areas: One is the tax burden of the plan holder can be minimized if the contributions into the plan can somehow be made tax deductible, or if the taxes can be minimized on the "output" or distribution end, where the money now coming out to provide for the retirement income can be minimized.

In short, we've just defined the three key wealth killers of many retirement plans: (1) Risk, (2) Overpaid fees and expenses, and (3) Taxes

So far, so good. Basic theory and for some, a simple review of "Retirement Planning 101"

If we are all on agreement of the principles, then the key question becomes, "Where and How Does the Average Person come up with that initial Big Sum?"

The first answer is, The "Average Person" simply can't do this economically in most cases. But there is a category where the "Average Person" is not average as he or she is a successful business owner.

Our govt has long since realized that Business Owners are the true key to the nations prosperity, particularly those "small business"owners (classic definition). Those who create jobs and drive the economy. Laws are in place to provide favorable tax treatments to encourage "average people" to become business owners, so with that understanding, we now have the "base" for this retirement plan to be developed.

So returning to the original premise: A large lump sum of money will produce more money in growth than a similar amount "trickled in", again working on the assumption that that amount will be relatively safe from market losses and other wealth thiefs as just discussed.

So where does that large sum of money come from"

Very simply: Borrow It! Not you as an individual, but your company or business (generally a corporation, which has the identity of an entity) borrows this money, and borrows is with a special loan which is an interest only loan. Of course, we all know that at some time, the principal will have to be paid back. That principal will remain constant and not growing as long as the interest is paid.

Now when the loan is properly structured (generally properly structured means that you, as the business owner, and working with your tax specialist... generally a CPA) means that the interest payments as they are on a loan to the business... are tax deductible.

Now what you may have been paying piecemeal to your “other” retirement plan in a way flows through, but unlike the personal piecemeal “contributions” you were making (in most case with after tax dollars) you now have as tax deductible money.

Now I know what you are thinking: Couldn't this still be at a loss to me, regardless of what hat I'm wearing – my business owner hat or my “personal” hat?

The answer is, almost as always in a financial question, “Depends”! So what does it depend on?

The general answer has to first say or ask, “What becomes of this loaned amount? Isn't the idea to put it into some kind of generally risk free investment tool where the growth takes place? And of course the answer is, “Yes! You got the idea”

So this depends then on having the money invested in a tool where the growth rate is predicted, as accurately as possible to be greater than the amount that will be paid (after the tax deduction) in the loan interest payments.

While it would be absurd to say to invest in a vehicle where the growth rate is guaranteed, this would not make sense because in some way or another you are “paying” for that guarantee. If you wanted a guaranteed rate of return, you may as well just invest in govt savings bonds or CDs.

You are going to take this money and place in in a vehicle which is “ratchet tied” to the market. When we say “ratchet tied” it's tied like a mechanical ratchet which can go one direction only. In this case, the direction is “up”. When the market moves up, so does your investment. But if and when the market goes into “reverse”, you money can't go the other direction. For those reading his paper but unfamiliar with the term, this is generally known as indexing, and it's present in a wide variety of financial instruments.

Is there a cost for this protection, or essentially guarantee from loss? Yes, there is. The cost is that the owner of this instrument foregoes the possibility of gains in the market above the upper ratcheting point, or index. For simplicity sake, let's say that "the instrument" carries an index of 12%. If the market were go go up more than 12%, whatever that difference is is lost to the the investment owner. The key element for the potential instrument buyer is to be very aware that some financial plans have the ability to downward adjust the index upper level called "the cap". It's vital that as a buyer you make certain you understand your plan and if and how caps can be adjusted.

In some cases thee are annual cap reviews where the owner can change. In some other plans a cap might be moved downwards on automatic. You NEVER want this element to be present.

So to date, we have seen that there are some costs such as the cost of interest, but we have this plan instrument growing money. But as business owners who hire people, we know that sometimes if we can have that employee perform more than one task for us, that's to our advantage (assuming they do the task well and without detriment to possibly their core job).

So it is with this "instrument" (which you may have noted, we have not named or identified yet).

The fact is, in this "white paper" which is written as a guide in principle, rather than a not-so-subtle commercial or advertisement... is that there are a variety of "instruments" that can meet the criteria, and that none fit into the category "one size fits all". However, in very general terms, the instrument will generally in some form fall into the life insurance family of financial products, and the reason is quite simple: It will be the death benefit part of this instrument that will serve as the collateral for the loan.

The reader is NOT to jump to conclusions on hearing the word "life insurance" because for the vast majority of readers of this white paper, few have ever had a serious education on the elements and provisions of the newer "not your grand-dads variety' of life insurance! This includes some special riders that make this able to function as collateral, as well as other riders that provide for additional protections, up to and including long term and critical care help.

And not the least of these, but tied into "retirement" is a way to use this very same plan as a part of a business exit strategy, whether that "strategy" is to turn the business over to current family members or possibly minor share holders, etc.

It comes back to how you hire that ideal employee! Have them able to perform more than one task.

Are there other unique elements of this retirement plan? The answer is “Yes”. The first and most important is that it is a PERSONAL and individual plan. Unlike qualified plans which you may have and which carry requirements to be extended to employees, this does not as it is personal. And unlike the plans the reader has most often heard of, there's no limits into the contributions or requirements as to when to start taking money out (distributions).

Distributions

Well, we have finally come to the subject of distributions, the part you've been preparing for, and we circle back to those wealth killers.

The essence of this plan is that your retirement distributions come to you in such a manner that the money comes to you in an income tax free manner.

To go into detail in this “paper” would be the start of essentially providing tax information and advice.

As we have not even defined a specific instrument yet, we could not make those statements, but more importantly, every business owner also has a somewhat unique business (and personal life) structure.

Also, and with hope this paper will be around a long time, we can logically assume specific tax laws will change.. but more in minor and individual nature

In general, we can say that as of Aug 2017, provisions are there that WILL allow a plan holder of a plan of this type to receive income tax free distributions... as so arranged with and through their CPA who is the ONLY tax authority the business owner should consult.

As a business owner retires, he/she is giving up a multitude of tax deductions they may have been entitled to during their active participation in their business. “Employees” have not had these advantages, and as such, probably would not miss them not being there, but the business owner, as we started by saying, is not your “average” person. For this reason, it's more important than ever to pay extreme details to your tax picture on retirement and it's your CPA, not your financial advisor, that needs to become your best advocate.

It's interesting to us as your author, to note the perceptions of many business owners lumping the services of the financial planner and the tax consultant into one functional category. Not true. The Financial Planner in so many cases has expertise in growing money and wealth (with various degrees of risk and cost, not always make clear, particular relative to taxes) where as the principal function of the CPA is to keep the tax payer compliant with at least minimal tax requirements. They have no necessary responsibility to know and delve into “optional” categories where with a little extra work, knowledge and study, they may suggest additional savings Not to “disparage” this category of professionals there are ethical and logical reasons ranging from “it may look like we're trying to find more billable sources” or “there's not enough of a client base to warrant time devoted to special categories that all costs associated with this may flow to one client, and hence not be cost effective”.

Conclusions

As this “white paper” concludes, then while it's fresh in the reader's mind, let's again restate that one of the key elements of this unique plan is to have a vehicle that provides for the income tax free distributions of those retirement funds, as well as providing flexibility in how and when these funds are paid. Then again, as of Aug 2017, it's fair and reasonable to say that these instruments do commonly exist and have for several years. If unknown to those planning retirement, it's most likely due to the fact they don't come through what are considered more conventional retirement planning channels or persons such as financial planners. One such reason is that in many cases they are in direct competition to the tools and instruments those channels promote,and in fact, we'll go as far to say that when instruments such as have been just discussed may be brought up, they are “shot down”.

The person, hopefully you, will take every step to learn (as the late Paul Harvey used to say” The Rest Of The Story. Following these steps will produce on average four times the returns than a “conventional” retirement plan.

The rest of this story, including the discussion and proposal of a plan that may be suitable for you, can be arranged through the author. The author can combine information on availability of the loan element as well as to the best way to use that, and will work in close concert with your CPA.