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Trouble with Conventional Approaches to Retirement Planning

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As politicians who are positioning for re election continue to dig their heels in on important issues like job creation and deficit reduction, our stock markets reel, national debt soars and entitlements expand.

Certainly this storm will pass one way or another, but for owners of private businesses what is at risk and how can you plan for unknown outcomes? At some point over the past three decades, the lines between retirement plans, investing, saving and responsible planning have become very blurred.

In many businesses the cost to make the 401(k) plan work for the leadership group far outweighs the benefits.

For the average middle class American, these issues are not so important. Government programs like Social Security have established a significant safety net for the elderly, widows and young children.

Conversely, the upper middle income and upper income business owners are the ones who have the most at risk on all fronts.

Take 401(k) Plans for example, in order for an upper middle income business owner to be able to defer the maximum, the business often needs to commit to large contributions for all employees, regardless of the employee's willingness to defer income personally.

Your business is already matching the Social Security costs and must further increase its commitment to enable an owner or the top management level executive to even defer a modest percentage of their own income.

In many businesses the cost to make the 401(k) plan work for the leadership group far outweighs the benefits. If we study this problem further, the potential costs and risks can potentially grow beyond perceived tax savings and benefits.

Current debt concerns in the United States are staggering certainly and much needs to be done to rein in spending. It is doubtful spending cuts alone will be adequate or happen in a meaningful or timely manner.

The potential for higher taxes could very well result in paying a higher rate of tax at the time an individual is pulling retirement money out and will potentially mean paying much more in taxes than we saved by deferring it in the first place.

Assuming we make a decent long term return, the tax rate change could be diminished, but lately making a decent return in any of the funds available in 401(k) Plans has become a distant memory.

"The more things change the more they stay the same" for many, short memory spans are of no consequence but for those who are able to look back and see cycles and trends for what they are versus what they are often purported to be.

Businesses and business owners can and should benefit by taking a more seasoned look at traditional approaches to executive management benefit strategies. These strategies can be as effective in the current environment as they have been over the past century. The really powerful results from an Executive Benefit approach added to current conventional solutions is that the business and its owners can be laser specific and build a plan without mutual fund volatility and government discrimination restrictions.

People who create results in addition to simply bringing skills can and should be carved out and rewarded for producing results not just putting in time an effort.

Certainly the ground has shifted in the compensation world and how companies can and should respond. People who bring skills to the working world are appropriately compensated. People who create results in addition to simply bringing skills can and should be carved out and rewarded for producing results not just putting in time an effort.

The 80/20 rule keeps surfacing when we study who and what creates the majority of results. The individuals in the top 20% creating results are likely well paid. If they are not appropriately compensated, your competition could easily lure them away with a promise of a better compensation package. If the only retirement benefit they have is a mutual fund based 401(k), they likely are not filled with confidence this quarter, this year or perhaps even this decade.

It is a relatively new phenomenon that we assume everyone is or should be an investor. Certainly investing has had its rewards only to be balanced by its risks.

Consider that, eighty percent of your employees are well provided for between social security, a modest 401(k) match, competitive wages and basic benefits.

The remaining 20% will begin to have gaps in retirement accumulation as they age but for many of them especially the younger individuals; they are focused on lifestyle, raising a family etc.

A few select individuals are maturing, providing real leadership and the kind of enthusiasm you wish was contagious.

Acknowledge them and their contributions and selectively create a non qualified benefit that will help them have confidence that if they continue to grow and finish out their career with your company that they can put aside worries that they are at the mercy of the market or tax law changes or even the next owner.

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