HOW TO GET BIG TAX BREAKS AND LARGE CONTRIBUTIONS FOR RETIREMENT SAVINGS

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DEFINED BENEFIT RETIREMENT PLANS ALLOW HIGH INCOME SELF-EMPLOYED PROFESSIONALS AND OWNERS OF SMALL BUSINESSES TO MAKE THE LARGEST IRS APPROVED TAX-DEDUCTIBLE CONTRIBUTIONS EACH YEAR, OFTEN $150,000 OR MORE. THESE PLANS CAN ALSO BE COMBINED WITH THE MORE TRADITIONAL RETIREMENT PLANS SUCH AS A 401(K) OR PROFIT SHARING PLAN TO INCREASE YOUR TAX DEFERRED RETIREMENT SAVINGS EVEN MORE.

Generally speaking, if you're 45 or older, earn a lot and can save big for at least three to five years, consider having one of these plans designed just for you. This is technically the same sort of fixed monthly pension big companies used to provide for their workers, but it serves a different purpose when custom designed. If designed properly this can result in up to a decade or more of huge tax deductions. These types of plans are specifically designed for folks who earn high enough incomes to afford to put much more away than is allowed with just a 401(K) plan.

Defined benefit plans are qualified employer-sponsored retirement plans. Like other qualified plans, they offer tax incentives both to employers and to participating employees. For example, the employer can generally deduct all contributions made to the plan as well as all associated fees. Thus, potentially allowing an employer to have substantial tax benefits. And as the participant you generally won't owe tax on those contributions until you begin receiving distributions from the plan.

Defined benefit plan contributions are mostly derived from combination of your age and income and are calculated annually by an actuary. The plan is termed 'defined' because the formula for calculating the employer's contribution is known ahead of time. The younger you are the less you can contribute, as the money has more time to grow. The plan is designed to guarantee participants a certain benefit at retirement.

One primary consideration when establishing a defined-benefit plan is understanding you have to fund at least to a minimum level each year. You also have to have an actuary do your actuarial analysis each year. If you fail to fund your plan at the minimum level annually your plan will be in violation with the IRS. Additionally, since the employer is responsible for making investment decisions and managing investments for the plan, the employer assumes all the investment risk.

When establishing a retirement plan it's critical to makes sure you're working closely with your financial advisor as well as your CPA to help you figure out what vehicle is the right option for you to help maximize the benefits of the plan for your specific financial wants and needs.