

Feeling Behind With Your RETIREMENT Plans?

By Michael J. Searcy and Jessica A. Maldonado



MANY DOCTORS FIND they are very close to where they want to be: they are well established in their career and life, make a sizeable income, have their homes and cars all or nearly paid for, have their children through college and have ample discretionary assets. However, when assessing their retirement fund, they realize they are behind.

Due to market crashes we've experienced in the last decade, many doctors are looking toward cash balance plans as a means to recover their losses and rebuild their retirement portfolio. Widely touted as a "catch-up" investment tool, it is a particularly attractive option for those who feel behind in their retirement savings and want to accumulate a large amount of savings over a short period of time, on a tax preferred basis.

Considering Cash Balance

Cash balance plans have been gaining popularity. Many business owners and professionals who are frustrated with the limitations that traditional retirement plan vehicles impose view cash balance plans as a way to maximize their retirement contributions. For highly compensated individuals who have reached legal contribution limits on their 401(k) and Profit Sharing plan, a cash balance plan offers them an opportunity to accelerate their savings above those limits with pre-tax contributions. With the threat

of increasing taxes looming, these plans could become even more attractive.

Medical groups benefit from the tax deferral and asset protection associated with cash balance plans, as well as additional benefits designed for the owner and employees. How does it work? A cash balance plan specifies, on an annual basis, a pre-tax contribution to be credited to each participant by the employer based upon the assumed and actual investment earnings and retirement date objective. The responsibility for saving falls on the employer, but cash balance plans usually have lower administrative fees than other plans and the risk is generally easier to manage.

Beware of Commission-Related Fees

Tax-deductible contributions can be made to the plan in the form of managed assets such as treasuries, stocks, mutual funds, variable annuities and bonds. However, they can also be funded by insurance products. Insurance agents typically promote cash balance plans because they use lower risk/lower yielding products that generally generate substantial commissions. However, utilizing other investment options over insurance products might make sense when trying to avoid excessive fees. Consider seeking a professional second opinion before signing up and make sure you understand the funding choices and resultant costs.

A cash balance plan is not appropriate for every situation. Much thought and consideration is required before implementing this type of retirement account. The cash balance plan must fit your needs and goals, so clear objectives must be set before determining if this is the right tool for you. To see if a cash balance plan is appropriate, it's a good idea to consult someone knowledgeable about such plans. Your financial planner may or may not have the expertise to assist you in this regard as this is a specialized area of retirement planning. If appropriate, this plan could be an integral part of your retirement security, helping you become financially free sooner rather than later.

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