

RETIREMENT PLAN INVESTOR'S MARKET UPDATE

By Jeff Gates

Financial Advisor at The Partners Group

There's More to Like About Combined Retirement Plans

The economic and market turmoil that we've experienced over the past few years has forced many dentists to reconsider their plans for retirement. Those approaching retirement age may need to strike a balance between working longer, spending less in retirement and saving more between now and when they retire.

Those who are looking for ways to save more should consider starting a Combined Retirement Plan.

What Are They?

Combined plans pair a defined contribution plan (most frequently a Safe Harbor 401(k) with profit sharing) with a defined benefit plan (most frequently a cash-balance plan). The resulting combined plan enables the employer to take advantage of both the defined contribution and defined benefit plan limits, allowing them to greatly increase plan contributions. All employer contributions to a qualified retirement plan are tax-deductible to the company and are non-taxable to the employee.

Getting a Boost from Changes in the Legal Code

The Pension Protection Act of 2006 is a 900 page, bipartisan bill that was signed into law in August of 2006 and took effect as of 2008. The bill was passed primarily to hold employers accountable for strengthening their defined benefit plans. Many had been underfunded and were at risk of not being able to pay out promised benefits.

The Pension Protection Act of 2006 also provided legal clarity to the design and administration of new cash-balance plans, which have been increasing in number since the Act was put in place.

Cash-Balance Plan Attributes

A cash-balance plan is a defined-benefit plan, which means that it guarantees a targeted annual benefit to each participant when they reach a specified age. The plan sponsors work with an actuary to determine the amount of annual contributions that will yield the desired benefit.


Cash-balance plans are conservative in nature, striving for slow, steady growth in the range of 4% to 6% per year. The guarantee of the annual benefit can be shifted from the plan sponsor to an insurance company, which contracts to pay the participant the annual benefit over their lifetime.

A cash-balance plan offers business owners a legal vehicle through which they can defer paying taxes on large sums of income. If you are looking for a ways to increase your retirement savings and also defer taxes on your practice, you should talk to your advisor about whether a combined retirement plan could work for you.

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Jeff Gates is a CERTIFIED FINANCIAL PLANNER™ with The Partners Group. Jeff can be reached at 503-241-9550. For this article and more, please visit www.tpggrp.com.

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11740 SW 68th Parkway, Suite 200 231 SW Scalehouse Loop, Suite 204
Portland, OR 97223 Bend, OR 97702

800.722.6339 • 503.241.9550 • tpgrp.com

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