



CASE STUDY

Innovative IRS Approved Retirement Plan Design Significantly Increases Tax Deductible Contributions for Owners and Key Employees

ISSUE

A highly successful New York business with two owners, two key employees, and six employees was looking for ways to reduce their tax liability by maximizing contributions in their retirement plan.

ACTION

CohnReznick Benefits Consultants analyzed the current retirement plan in place which only allowed for 401(k) deferrals and a safe harbor match of 4% of compensation. Our team's solution was to design a new Direct Recognition Variable Investment Plan (DR-VIP) that allowed them to make the maximum possible contributions in their 401(k) Plan by adding profit sharing contributions, while also adding a defined benefit plan which allowed for even larger tax-deductible contributions. The DR-VIP is an IRS approved qualified retirement plan design, so all contributions are fully tax-deductible and exempt from creditors.

IMPACT

Our customized DR-VIP plan design allowed the owners and key employees to defer an additional \$564,000 of income with supporting contributions of an additional \$35,000 for the rest of the employees. The owners and key employees received 94% of the new contributions, which resulted in an estimated annual tax savings of \$250,000. The new plan design also mitigated the underfunding liability (which is associated with all other forms of defined benefit plans), provided investment flexibility and maintained predictable annual contributions, while providing for maximum tax deductions.

ABOUT COHNREZNICK BENEFITS CONSULTANTS

As a joint venture between CohnReznick and Chernoff Diamond & Co. Inc. LLC, CohnReznick Benefits Consultants provides comprehensive advisory implementation, and administrative services for employee benefits and retirement plans. Our benefits consultants also have experience in merger and acquisition environments, compensation plans, and group health and welfare plans.

For more information on how CohnReznick Benefits Consultants can help you, please contact:

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	Existing 401k Plan Contribution	DR-VIP Plan Contribution	Additional Deferred Income Through Increased Tax-Deductible Contribution
Owner 1	\$35,500	\$218,500	\$183,000
Owner 2	\$35,500	\$176,500	\$141,000
Key Employee 1	\$35,500	\$171,250	\$135,750
Key Employee 2	\$35,500	\$139,750	\$104,250
			\$564,000.