



ARE YOU OVERLOOKING TECHNOLOGY'S BENEFITS?

By Greg Powell

If technology is only as good as the people who use it, it is amazing that some of those who develop new technology are not taking advantage of the resources that can enhance their quality of life, which their very industry has made possible.

Case in point, 401(k) retirement plans are no longer just for big business. In the past, many owner-only small businesses have viewed 401(k) plans as too expensive or impractical in comparison to other retirement plans. But thanks in part to technology upgrades, all sizes of companies can have a 401(k) plan that rivals any company.

The biggest reaction to this comes from owner-only small businesses and CPAs of the businesses who did not realize the simplicity and ease with which a plan can be started. A 401(k) plan has become more attractive due to recent tax law changes, such as higher deductible contribution limits, catch-up contributions and the ability to consolidate multiple retirement accounts. There are prototype plans designed specifically to help owner-only small businesses to take advantage of these opportunities provided under the tax law. These plans are less complex, less burdensome to administer and less costly to maintain compared to the conventional 401(k) plan most people are familiar with in large corporations.

The ideal person eligible for an individual 401(k) account would be the owner-only or owner and spouse-owned businesses and can include corporations, partnerships and sole proprietors. You can place discretionary salary reduction and/or profit sharing contributions.

For example, the salary reduction contributions are up to an amount of \$15,500 with a catch up contribution for those over age 50 up to \$5,000. For 2007, the maximum amount of wages that could be used for determining plan contributions was \$225,000. Total contributions cannot exceed the lesser of 100 percent of compensation or \$45,000 (\$50,000 if age 50+).

Suppose you could defer income into a 401(k) for yourself. Think of the tax savings. Think of the tax deferred growth. How many times have you heard of the business owner who built the company around himself thinking that one day he or she would sell it only to see technology advance past them and the value was gone.

By establishing an individual 401(k) the owner now has the assets that, over time, can grow and supply him or her with income later in life even if the business fades away.

This does not even begin to discuss the immediate 100 percent vesting that occurs or that an owner can establish a loan provision in his or her 401(k) plan that is generally limited to 50 percent of the account balance or \$50,000, whichever is less.

And finally, you need to work with an independent financial advisor (one who is not employed by a major financial company) whose services and advice are centered on a comprehensive financial plan instead of a limited selection of "company" product.

It is one thing to start a 401(k) plan. It is another to know with a financial plan if you are on track with your retirement goals. It is the independent advisor who can coordinate all strategies with your CPA, corporate attorney and other professionals, enabling you to focus on your business as well as systematically make contributions into your individual 401(k) plan.

Think about it. You would never start your business without a business plan. Why would you start your retirement strategy without a financial plan? Any financial advisor who will invest your money without a plan is in essence doing just that, and it should raise red flags. It is one thing to say you are saving for retirement. It is another to know you are on track.

Remember the joke about the person who says, "I must have money in my account because I still have checks in my check book." Just because you own a business does not guarantee retirement and neither does having a retirement account. The key is having a financial

plan that can identify if you are in track to reach your goals based on contributions as well as rate of return, not to mention the capability to forecast the “what if this happens” scenarios.

Of course, you can attempt to do this yourself, but the question becomes will you be honest with yourself as well as your spouse if you are married. As entrepreneurs, you have a tendency to take too much risk without realistically evaluating the downside with the upside of the markets, your investments and your emotions.

Your financial advisor should make it mandatory that you review this plan at least once a year in conjunction with the portfolio whether you think any changes have occurred or not. This way the combination of your financial plan and your 401(k) retirement account becomes proactive, powerful tools in providing you with data that gives you confidence in making decisions for both your professional and personal life.

Keep in mind that having a financial plan and a 401(k) plan does not make it mandatory that you retire by a certain age. In fact, age should not be the determining factor in retiring. It should be based on many factors, one of which is that you no longer are passionate about what you are doing. On the other hand, owners, who say they will keep on working forever, can be overcome by bad health. Then because they have no retirement plan to fall back on, they become hopeless, as they cannot find a

buyer for the business.

Hopefully, examples like this will get your attention and help you rethink your company strategy in relation to your personal life. As the saying goes, “Work smarter, not harder.” As a professional in the technology industry, your focus is on how you can make life and work easier for companies and employees by developing systems and processes that save time and money. You should likewise do the same for yourself by developing a retirement strategy, with an independent financial advisor. This can give you more time and money to enjoy life should you decide you have had enough of the technology race.

There is a saying, “Technology is great when it works.” Technology has made the individual 401(k) affordable and here to stay. Take the time today and do something for yourself. Establish an individual 401(k) if it applies to you. The deadline is Dec. 31, 2008 to have it established. With that stated, start your contributions today and receive the benefit of participating for 10 months.

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