

# Money Matters

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## Question: What's Better Than a 401k?

By Aaron Skloff

**Q:** Last year I could only contribute 8% of income to my 401(k), while this year it will be less than 5%. What type of retirement plan would allow me to maximize my tax advantaged savings?

**A:** Contributions to your 401(k) plan are limited by the IRS — \$16,500 if you are under the age of 50 and \$22,000 if you are over. The IRS also limits assets of key employees (officers, directors and the like) to no more than 60% of plan assets.

If you are less than 50 years old and earn \$200,000, you can only contribute 8% of your salary to your 401(k). If you earn \$325,000 you are capped at 5%.

**The Solution.** Your company could offer you a Non-Qualified Deferred Compensation (NQDC) Plan, which has many of the same benefits of a 401(k), without many of the restrictions.

Designed for key employees, limited to the top 35% wage earners, a NQDC plan allows you to defer up to 100% of your income on a tax deferred basis. Like a 401(k), profits grow on a tax deferred basis. Unlike a 401(k), withdrawals of contributions are permitted before the age of 59 ½, a tremendous benefit if your goal is to retire early.

All NQDC plans must satisfy the following three requirements regarding deferred compensation:

- 1) the arrangement between you and your employer must be entered into before the compensation is earned,
- 2) it cannot be available to the employee until a previously agreed future date or event and
- 3) it cannot be secured

The advantages to your employer of offering a NQDC plan include the:

- 1) flexibility of discretionary contributions,
- 2) ability to include a vesting schedule and
- 3) significantly less restrictive plan rules versus a 401(k)

With a NQDC plan, a private company can offer unique investment choices, such as phantom stock. This is a great way for a company to incent key employees.

Have your company implement a NQDC and you will maximize your retirement assets and your tax savings. You will be happy when you retire and your CPA will be happy the next time you file your taxes.

Note. Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA) is CEO of Skloff Financial Group, a Registered Investment Advisory firm based in Berkeley Heights. He can be contacted at [www.skloff.com](http://www.skloff.com) or 908- 464-3060.