

Business Owners: Are You Working Hard With Nothing to Show For It?

by Larry Comp and Terry Lauter

Like most of you reading this article, we are hard working and extremely busy entrepreneurs. Most of our waking hours are devoted to meeting the evolving needs of our clients/customers. Much of the rest is spent with family. Unfortunately, this leaves little time for focusing on personal and financial goals.

A few years back, we came to the realization that, while earning a respectable income, we weren't making the kind of progress we needed in order to achieve our long-term financial goals. Sure, there were cash bonuses at year-end, but the taxes just weren't pretty. And the 401(k) Plan was fine, but there were, of course, significant limits in how much we could save each year. And while we also had a Profit-Sharing Plan, no matter the selected formula, we weren't overly excited with the results.

One day, one of our associates mentioned that we might benefit from putting in a Nonqualified Deferred Compensation Plan. We figured we had nothing to lose and proceeded to invite a handful of reputable providers to come in and enlighten us. Quite frankly, the first few providers confused the heck out of us, leaving us disenchanted. The next, however, was able to easily explain the purpose and workings of this type of plan and how we could benefit from participating. To cut to the bottom line, we signed up.

Basically, our Plan works very much like a 401(k). However, it is extremely flexible. We can pick and choose which of our highly paid employees to include in the Plan. Our participants can defer up to 100% of current income and these deferrals accumulate on a tax-deferred basis. We have a wide range of investment choices. A vesting schedule is optional. Monies can be withdrawn early (before age 59 1/2) without penalties. A variety of financing options are available. Of course, there are some potential disadvantages to consider. Our company cannot take a tax deduction until payments are made to the participants. Plan assets are also subject to creditors in the unfortunate event of bankruptcy.

It has now been several years since we set up our Deferred Compensation Plan. Our monies have grown. Customer service has been excellent, and there have been no surprises. We have significantly increased our long-term savings, and have greater peace of mind.

In lieu of the recent changes in regulations surrounding executive benefits and stock option plans, we have introduced this concept, and similar concepts, to other clients and associates looking to accumulate serious capital as they build their businesses. Many of us have benefited from these types of plans; perhaps you can too.

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