The Front & Back End to Maximizing Qualified Retirement Plan Assets

September 25, 2025

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An Evolution of Great Legislation

ERISA '74

- Established the basic framework of qualified plans.
- Designed to prohibit discrimination.

SBJPA '96

- Added Safe Harbor provisions for 401(k) plans.
- Increased Profit Sharing plan deduction limits from 15% of pay to 25%.

EGTRRA '01

- Increased ***and indexed*** qualified plan benefit and compensation limits.
- Added Catch-up to 401(k) deferral limits.

PPA '06

- Made permanent the EGTRRA limit indexing (was scheduled to sunset)
- Expanded participant disclosures

TCJA '17

- Did nothing for qualified plans except that qualified plan contributions can be used strategically to meet QBI phase-out thresholds

SECURE '19

- Simplified participant notice requirements.
- Allows for an existing 401(k) to adopt a safe harbor provisions much later; more flexibility.
- Increases the startup plan tax credit to up to $5,000 per year for 3 years. (from $500)
- Increase RMD age from 70 ½ to age 72.
- Permits businesses to treat qualified plans adopted before the due date (including extensions) of the tax return for the taxable year to treat the plan as having been adopted as of the last day of the taxable year.

SECURE 2

- See next slide

An Evolution of Great Legislation
SECURE 2

Effective in 2023

- Increase in the new plan startup credit from 50% to 100% of costs
- Added credit for eligible employer contributions of up to $1,000 per employee
- RMD Age 73+
- Reduction in RMD excise taxes
- Reduction in future PBGC premiums
- Expanded distribution provisions for hardships and disasters, participant self-certification
- Roth match/employer contributions
- Roth SEP/SIMPLE

Effective in 2024

- Retroactive increases for DB plans
- Mandatory Cash-Out limit increased from $5,000 to $7,000 (we wish it was $50,000!)
- Reform of family attribution rules
- Extension of Roth RMD exemption to qualified plans
- Long Term Part Time Employee deferral
- Even more distribution provisions for hardships
- Catch up deferrals for high earners is required to be Roth

Effective in 2025

- Automatic Enrollment
- Automatic Escalation

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Employee Benefits

Plan Design
Documentation
Administration
IRS Plan Audits
Non-Qualified
Executive Comp
ESOPs

Trusts & Estates / Taxation

Estate Planning
Wills & Trusts
Estate Administration
Tax Planning

Corporate

Entity Formation
Shareholder Agreements
Partnership Agreements
Employment Contracts
Mergers
Acquisitions
Healthcare Compliance

Taxable vs. Tax-Deferred- $70,000 Available

Investment Return: 6% per year
Combined Tax Rate: 50%

	No Plan	**Qualified Plan**
Period	After-tax savings =$35,000	**Pre-tax contribution =$70,000**
10 Years	$401,000	**$923,000**
20 Years	$940,000	**$2,575,000**
30 Years	$1,665,000	**$5,534,000**

IRS Limits

		2024	2025	IRC §
Maximum Benefits	Defined Contribution	$69,000	$70,000	415(c)
401(k) Maximum Deferral	<50 years	23,000	23,500	402(g)
Catch-Up	≥50 years	7,500	7,500	414(v)
Catch-Up +	60-63 years	N/A	11,250	414(v)
Maximum Benefits	Defined Benefit	275,000	280,000	415(b)
Maximum Compensation		345,000	350,000	401(a)(17)
Highly Compensated Employee		155,000	160,000	414(q)

2 Types of Plans

- Defined Contribution

Profit-sharing

Traditional 401(k)

Roth 401(k)

New Comparability

- Defined Benefit

Traditional Defined Benefit

Cash Balance

Building Blocks of Plan Design
Employee's Cost as % of Compensation

	Basic	Basic +	Fair	Good	Better	Best	
	Profit Sharing Non-Integrated	Profit Sharing Integrated	Profit Sharing + 401(k) (3% Safe Harbor)	Profit Sharing + 401(k) (Safe Harbo Match)	New Comparabilit y Profit Sharing	New Comparability + 401(k) (3% Safe Harbor)	New Comparability + 401(k) (Safe Harbor Match)
Owner $350,000	20% $70,000	20% $70,000	20% $70,000	20% $70,000	20% $70,000	20% $70,000	20% $70,000
Employee $50,000	20% $10,000	17.17% $8,585	10.46% $5,230	6.46% $3,230	5% $2,500	4.43% $2,215	3.10% $1,550

Benefits of New Comparability [Treas. Reg. § 1.401(a)(4)-8]

- **Increased contributions for Owners**
- **Decreased cost for Staff**
  - Ideal if **older** Owners / **younger** Staff

- **Increased contribution flexibility**
  - Use Classes and Sub-Classes
    - Reward specific employee "classes"

Safe Harbor 401(k)
+ New Comparability

Type of Plan	**OWNER** **Age 49** $350,000	**EMPLOYEE** **Age 30** $50,000
New Comparability (no 401(k))	$70,000 (20%)	$2,500 **(5%)**
New Comparability + 3% Safe Harbor	$70,000 ($46,500 ÷ $350,000 = (13.29%)	$2,215 **(4.43%)**
New Comparability + Safe Harbor Match	$70,000 ($32,500 ÷ $350,000 = 9.29%)	$1,550 **(3.10%)**

New Comparability - Case Study 1
Non-Owner NHCEs (New Comp + 3% Safe Harbor)

Employee	Compensation	Contribution % of Compensation	% of Total
Partner [Age 65]	$350,000	**$77,500**	$225,000 - **89%**
Partner [Age 62]	350,000	**77,500**	
Partner [Age 49]	350,000	**70,000**	
Assoc. [Age 44]	185,000	5,550 [3.00%]	
Assoc. [Age 38]	165,000	4,950 [3.00%]	
Assoc. [Age 37]	160,000	4,800 [3.00%]	
Assoc. [Age 35]	156,000	4,680 [3.00%]	
Staff [Age 55]	65,000	2,880 [4.43%]	$29,151 - 11%
Staff [Age 46]	52,000	2,304 [4.43%]	
Staff [Age 31]	46,000	2,038 [4.43%]	
Staff [Age 27]	44,000	1,949 [4.43%]	

New Comparability - Case Study 2 with 401(k) & Safe Harbor Match

Employee	Compensation	Contribution % of Compensation	% of Total
Owner [Age 75]	$350,000	$77,500	$310,000 - **98%**
Owner [Age 73]	350,000	77,500	
Owner [Age 52]	350,000	77,500	
Owner [Age 50]	350,000	77,500	
Staff [Age 35]	45,000	1,395 [3.10%]	$5,053 - 2%
Staff [Age 32]	40,000	1,240 [3.10%]	
Staff [Age 30]	40,000	1,240 [3.10%]	
Staff [Age 27]	38,000	1,178 [3.10%]	

Defined Benefit Plans
[§430, 404(o)]

- Limits Based On Maximum Annual Annuity Payable At Age 62
  ($280,000 for 2025)

- Lump Sum Equivalent At Age 62 is $3,587,800

- Limit Phased-In Over 10 Years Of Plan Participation

- Maximum Accumulation of $358,780 Per Year

Defined Benefit Plan
Sample Maximums

Current Age	Compensation	Defined Benefit Plan Contribution*
40	$280,000	$114,000
52	280,000	215,000
60	280,000	325,000

*Based on Dec. 2024 segment rates

Single Participant
Defined Benefit Plan & 401(k)/6% PS
[§404(a)(7)]

Current Age	Compensation	DB Plan Contribution	401(k) Deferral + 6% PS	Total Contribution
40	$350,000	$114,000	$44,500	$158,500
52	350,000	215,000	52,000	267,000
60	350,000	325,000	55,750	380,750

Cash Balance Plans - Hybrid

Like Defined Benefit Plans

- Substantially increase Owners' contributions
- Pooled Investments: No Directed Accounts
- Plan Benefits Guaranteed
  - Benefit (Account Balance) not subject to Market
- Level Annual Funding
- Reduce incentive for investment risk
- Lesser of 40% or 50 Participant Coverage Rule

Cash Balance Plans - Hybrid

Like Defined Contribution Plans

- "Quasi" Account Balances
- New Comparability type "Classes“
- Ideal for multiple Owners
- More easily understood by Owners & Employees
- Plan designed to pay out lump sums

Cash Balance Add-on

	Defined Contribution	Cash Balance	Total
Owners / Highly Compensated Employees	$70,000 (20%)	$62,000+ ($62,000-$300,000+)	$132,000+
Staff Cost	5%	2½%	7½%

Cash Balance & New Comparability

Cash Balance Add-On

Employee	New Comparability	Cash Balance	Totals	% of Total
Owner [Age 75]	$77,500	$197,000	$274,500	$1,098,000 99%
Owner [Age 73]	77,500	197,000	274,500	
Owner [Age 52]	77,500	197,000	274,500	
Owner [Age 50]	77,500	197,000	274,500	
Staff [Age 35]	3,375	0	3,375 (7.5%)	$14,850 1%
Staff [Age 32]	3,000	0	3,000 (7.5%)	
Staff [Age 30]	3,000	0	3,000 (7.5%)	
Staff [Age 27]	2,850	0	2,850 (7.5%)	
Staff [Age 25]	2,625	0	2,625 (7.5%)	

Now the Back End – The Distribution Phase

New Distribution Rules for Retirement Assets

- The impact of the SECURE Act 2.0 has created a game change for high-net-worth clients. The act requires beneficiaries of inherited IRAs to withdraw all assets of the IRA account within 10 years, in most cases.
- This can create a significant income event resulting in giving back most of the income tax benefits accumulated over the years. Post-death control is also minimized while the resulting lack of asset protection increases.

New Distribution Rules for Retirement Assets

Certain beneficiaries, referred to as "eligible designated beneficiaries (EDB)," are exempt from the 10-year rule:

- Spouses
- Minor-aged children until age 21
- Chronically ill and disabled children
- Beneficiaries no more than 10 years younger than the IRA owner

Beneficiary Classes for Distributions

- IRS modified its initial ruling on inherited IRA distributions by splitting non-EDBs into two groups. How these beneficiaries can receive the required minimum distributions (RMD) is based on the death of the IRA owner.
- One group would be comprised of non-EDBs who inherited from retirement account owners who died prior to their required beginning date (RBD).
  - This group of beneficiaries would have the option to receive the full balance from the IRA within ten years after the death of the IRA owner but wouldn't be required to take pre-SECURE Act RMDs for the first nine years.
- The other group, non-EDBs who inherited from retirement account owners who died on or after their RBDs, would be subject to both the 10-year rule and RBDs for the first nine years.

Common Planning Strategies Being Implemented Include

Roth Conversions

Reviewing IRA Trusts & Beneficiaries

However, more comprehensive strategies are available that can mimic the “stretch IRA” using some additional creativity. Also, provides additional benefits.

Modified ROTH Conversion

- The following is a study comparing a more traditional approach clients take by differing growth then taking RMDs at age 73 to life expectancy, passing the remaining balance to their beneficiaries at age 95.
- In an alternative technique referred to as a “modified Roth conversion,” the after-tax proceeds are reallocated to an income tax-efficient plan using life insurance over a 10-year period. Alternative periods can also be used.
- The policy is owned inside an irrevocable life insurance trust (ILIT), allowing the proceeds to pass income and estate tax-free.
- Using the ILIT enables this technique to mimic the traditional “stretch” strategy.

Two Hypothetical Scenarios Based on a $3M IRA Illustrate the Following

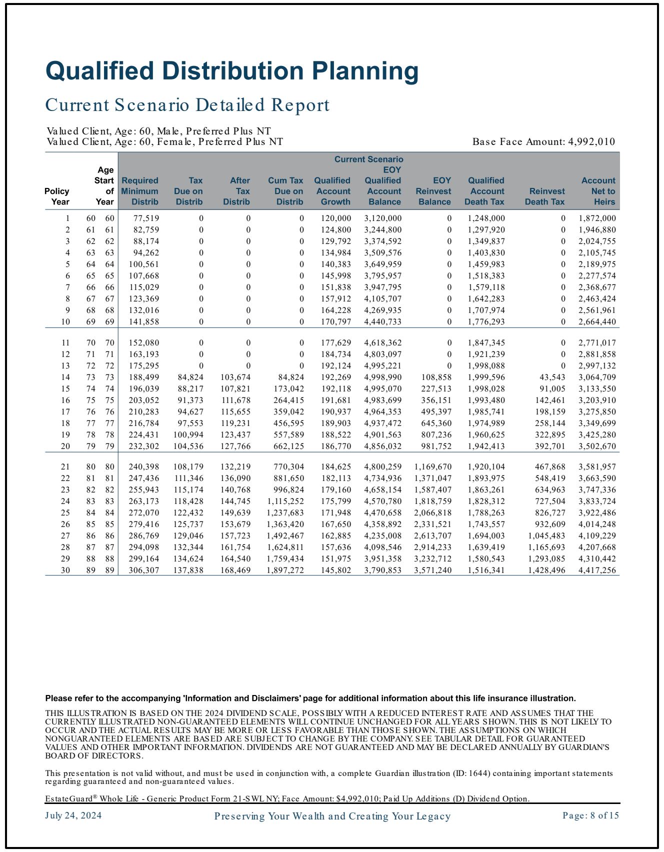
- A more traditional approach of taking RMDs from an IRA from age 73 to 95
- An IRA paydown over 10 years at age 60 funding an income tax-efficient account through a whole life survivorship insurance policy

	Scenario #1: Traditional IRA
Total Taxes	$3,456,641
Net Account Value	$1,566,364
RMDs Invested (net)	$3,618,253
Legacy Value	$5,184,617

Note:
- IRA assets grow @ 4%; RMDs taxed @ 45%; RMD account grows @ 5%. Estate tax rate 40%.
- Legacy values in scenario #1 included in the estate vs outside the estate in scenario #2.

Summary Points of Alternative Strategy:
- Over 50% less taxes; *tax savings over $2 million*
- More assets passed on to next generations *outside the estate*
- Gain asset protection from creditors, divorce, bad investment decisions, and other potential unexpected wealth-eroding events

Detail to Scenarios #1 and #2



Qualified Distribution Planning

Current Scenario Detailed Report

Valued Client, Age: 60, Male, Preferred Plus NT
Valued Client, Age: 60, Female, Preferred Plus NT

Base Face Amount: 4,992,010

Policy Year	Age Start of Year		Current Scenario Required Minimum Distrib	Tax Due on Distrib	After Tax Distrib	Cum Tax Due on Distrib	Qualified Account Growth	EOY Qualified Account Balance	EOY Reinvest Balance	Qualified Account Death Tax	Reinvest Death Tax	Account Net to Heirs
1	60	60	77,519	0	0	0	120,000	3,120,000	0	1,248,000	0	1,872,000
2	61	61	82,759	0	0	0	124,800	3,244,800	0	1,297,920	0	1,946,880
3	62	62	88,174	0	0	0	129,792	3,374,592	0	1,349,837	0	2,024,755
4	63	63	94,262	0	0	0	134,984	3,509,576	0	1,403,830	0	2,105,745
5	64	64	100,561	0	0	0	140,383	3,649,959	0	1,459,983	0	2,189,975
6	65	65	107,668	0	0	0	145,998	3,795,957	0	1,518,383	0	2,277,574
7	66	66	115,029	0	0	0	151,838	3,947,795	0	1,579,118	0	2,368,677
8	67	67	123,369	0	0	0	157,912	4,105,707	0	1,642,283	0	2,463,424
9	68	68	132,016	0	0	0	164,228	4,269,935	0	1,707,974	0	2,561,961
10	69	69	141,858	0	0	0	170,797	4,440,733	0	1,776,293	0	2,664,440
11	70	70	152,080	0	0	0	177,629	4,618,362	0	1,847,345	0	2,771,017
12	71	71	163,193	0	0	0	184,734	4,803,097	0	1,921,239	0	2,881,858
13	72	72	175,295	0	0	0	192,124	4,995,221	0	1,998,088	0	2,997,132
14	73	73	188,499	84,824	103,674	84,824	192,269	4,998,990	108,858	1,999,596	43,543	3,064,709
15	74	74	196,039	88,217	107,821	173,042	192,118	4,995,070	227,513	1,998,028	91,005	3,133,550
16	75	75	203,052	91,373	111,678	264,415	191,681	4,983,699	356,151	1,993,480	142,461	3,203,910
17	76	76	210,283	94,627	115,655	359,042	190,937	4,964,353	495,397	1,985,741	198,159	3,275,850
18	77	77	216,784	97,553	119,231	456,595	189,903	4,937,472	645,360	1,974,989	258,144	3,349,699
19	78	78	224,431	100,994	123,437	557,589	188,522	4,901,563	807,236	1,960,625	322,895	3,425,280
20	79	79	232,302	104,536	127,766	662,125	186,770	4,856,032	981,752	1,942,413	392,701	3,502,670
21	80	80	240,398	108,179	132,219	770,304	184,625	4,800,259	1,169,670	1,920,104	467,868	3,581,957
22	81	81	247,436	111,346	136,090	881,650	182,113	4,734,936	1,371,047	1,893,975	548,419	3,663,590
23	82	82	255,943	115,174	140,768	996,824	179,160	4,658,154	1,587,407	1,863,261	634,963	3,747,336
24	83	83	263,173	118,428	144,745	1,115,252	175,799	4,570,780	1,818,759	1,828,312	727,504	3,833,724
25	84	84	272,070	122,432	149,639	1,237,683	171,948	4,470,658	2,066,818	1,788,263	826,727	3,922,486
26	85	85	279,416	125,737	153,679	1,363,420	167,650	4,358,892	2,331,521	1,743,557	932,609	4,014,248
27	86	86	286,769	129,046	157,723	1,492,467	162,885	4,235,008	2,613,707	1,694,003	1,045,483	4,109,229
28	87	87	294,098	132,344	161,754	1,624,811	157,636	4,098,546	2,914,233	1,639,419	1,165,693	4,207,668
29	88	88	299,164	134,624	164,540	1,759,434	151,975	3,951,358	3,232,712	1,580,543	1,293,085	4,310,442
30	89	89	306,307	137,838	168,469	1,897,272	145,802	3,790,853	3,571,240	1,516,341	1,428,496	4,417,256

Please refer to the accompanying 'Information and Disclaimers' page for additional information about this life insurance illustration.

EstateGuard® Whole Life - Generic Product Form 21-SWL NY; Face Amount: $4,992,010; Paid Up Additions (D) Dividend Option.

- Access detail to scenarios #1 and #2 Summaries

Adobe Acrobat Document

← Full Illustration Access available through the attached icon

Alternative Technique #2

Charitable Remainder Trust Coupled with Asset Replacement Trust:

- Another, more comprehensive technique, caters to those who have some charitable intent. This strategy mimics the traditional “stretch” in two ways:
  - *through using a charitable remainder trust (CRT)*
  - *and a wealth replacement trust (WRT)*
- Using this approach, the donor names a CRT as the beneficiary of an IRA, which converts the assets to pay an income stream to the child beneficiary of the CRT for a specified period of time (maximum period, 20 years).
- When the CRT terminates, the assets pass to the charity. Then, through the use of an ILIT, the life insurance replaces assets that don’t pass to the donor’s children or grandchildren due to the use of the CRT, where the assets are ultimately passed.

Alternative Technique #2

- The client can substantially mitigate most of the income taxes typically paid on these assets (other than the CRT distributions) making this an extremely tax-efficient strategy to pass assets.
- The client also receives an estate tax deduction for the remainder interest passing to the charity, adding to the tax benefits of this technique.
- The client may object to this strategy, however, because their family is being “disinherited” by the charity receiving the IRA proceeds; that’s where the wealth replacement trust comes in.

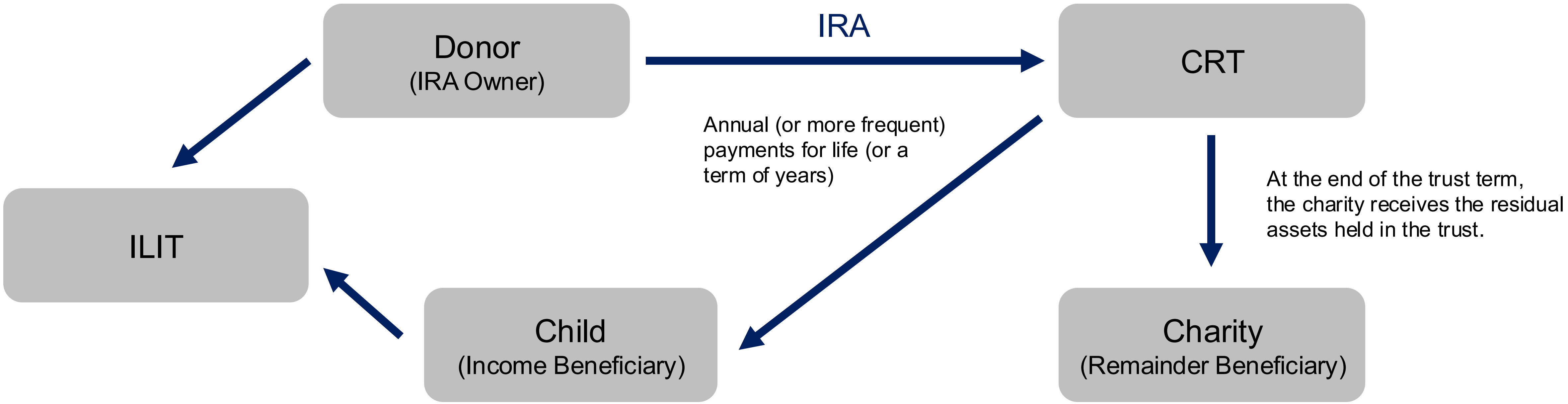
Alternative Technique #2

- While alive, the IRA owner may use some IRA distributions or other assets to fund the ILIT to pay the policy premiums. In addition, or alternatively, the child can use some or all of the CRT income stream to fund the ILIT to pay premiums.
- For example, if a donor would normally have left an IRA to grandchildren (which is no longer advantageous under the SECURE Act due to the 10-year rule), or the donor would expect under the old "stretch IRA" rules that there would be IRA money left at the child's death that would go to grandchildren, the donor can leave the IRA to a CRT at death, and the child beneficiary of the CRT can fund an ILIT that owns a life insurance policy on the child that will benefit the grandchildren when the child dies and the remaining assets in the CRT will pass to charity and not to the grandchildren.

Alternative Technique #2

Charitable Remainder Trusts Funded with IRAs at Death Coupled with an Asset Preplacement Trust

Charitable Remainder Trust (CRT)



Planning Abstract

Below is the summary of the two techniques that can mimic the traditional stretch IRA strategies for the high-net-worth clientele with enough other assets to live on, passing on the higher taxed qualified plan or IRA accounts to future generations for legacy planning.

Two Techniques

- One strategy caters to those with charitable intent
- The other strategy caters to those who do not have charitable interests (also referred to as a “modified Roth conversion”)

Disclosures

- Kenneth A. Horowitz, CLU® ChFC® RICP® AEP®, entered the financial services and life insurance business in 1989 after a short career in the commercial real estate finance business with a leading NYC-based commercial bank. He became affiliated with the Guardian Life Insurance Company of America, New York, NY as a Field Representative with the Compain Anderson Group and went on to qualify for the company's prestigious Awards Club for many years. After merging with another NYC-based Guardian agency in 2000, Strategies for Wealth, Ken's services grew more comprehensive by providing clients with a distinct financial planning process. His commitment to the financial services business is exemplified by qualifying as a Chartered Life Underwriter (CLU), a Chartered Financial Consultant (ChFC), Retirement Income Certified Planner (RICP), as well as earning a Series 7. Ken's specialization includes helping accountants deliver more value to their clients by offering more proactive and holistic strategic planning services. He has also given his time to help various charitable and local organizations. Some of his affiliations include Board member and President of the Bergen County, N.J. Estate Planning Council; Head of the N.J. Chapter of Hofstra University Alumni Association; Executive Board Member of Albert Einstein College of Medicine; Penn State Parents Association; Y-JCC of Bergen County Board member; The Loomis-Chafee Alumni Association; and member and coach of the Woodcliff Lake Basketball Association.
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