

Recover Losses in Your 401(k) with a Deferred Compensation Plan



The recent volatility in the markets has renewed everyone's sensitivity to the importance of diversification. Depending on a portfolio asset allocation, the impact of the recent market downturn could have depleted 401(k) balances by as much as 30% or more. This decline has been alarming for those with shorter investment horizons (i.e. the time until retirement age).

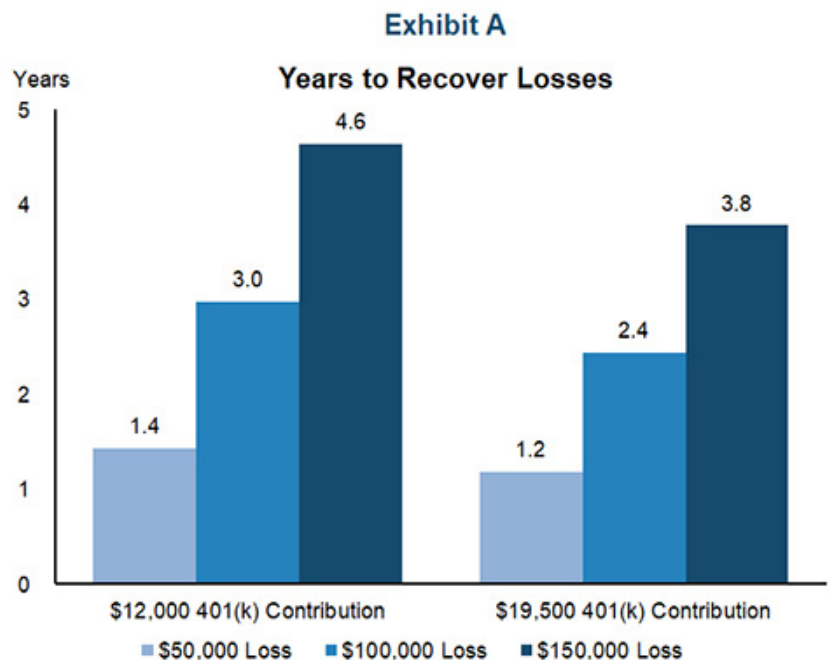
The most pressing questions are:

1. How fast will the markets rebound?
2. How long will it take to replenish 401(k) plan balances to previous levels?

There is an important strategy that can be a significant contributor to successfully restoring one's 401(k) plan. That strategy is the availability of a [deferred compensation plan](#) which is also a strategy designed to accumulate wealth pre-tax.

The contribution limitations imposed on 401(k) plans has made it difficult for highly compensated employees to recover from substantial investment losses.

For example, a 45-year-old executive who had a \$320,000 401(k) balance, might have a balance of \$220,000 today due to the stock market correction. Given the 401(k) maximum contribution limit of \$19,500 a year and assuming a rate of return of 5%, it will take approximately 4-years to restore the balance to the level previously established. This assumes that one can defer the maximum each year, since many 401(k) plans have further limitations, whereby the \$19,500 contribution maximum is prohibited due to discrimination testing. In Exhibit A, the chart displays the time it will take an executive to replenish their 401(k) balance based on annual contribution amounts.



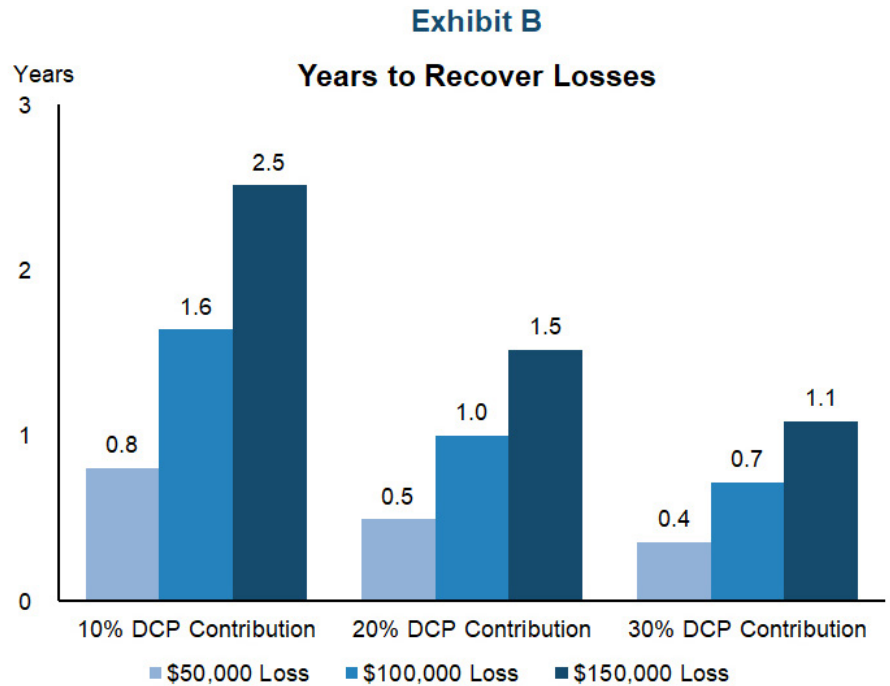
Based on a pre-loss 401(k) balance of \$500,000 and a 5% earnings rate.

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Alternatively, a deferred compensation plan can be used to provide executives with the ability to replenish pre-tax wealth immediately. This can be done with an election to defer compensation (e.g. salary, bonus, commissions, restricted stock units (RSU), performance stock units (PSU) or severance) in an amount equal to the amount of the loss. The chart in Exhibit B shows the positive impact of utilizing a deferred compensation plan to quickly recover one's pre-tax wealth.

Exhibit B does not factor in the possibility that a \$100,000 loss in the 401(k) plan can be replenished immediately with a pre-tax deferral of \$100,000 into a deferred compensation plan. Since there are typically no limitations on what one can defer into a deferred compensation plan, the gap in the 401(k) plan can be made up on any timeline chosen by the executive.



Based on a pre-loss 401(k) balance of \$500,000, a 5% earnings rate and \$400,000 executive compensation.

Executive Summary

The value of leveraging a deferred compensation plan during a time when values in 401(k) plans have been significantly impaired can be substantial. Being able to better control the timing on rebuilding pre-tax retirement plan accounts is paramount from a wealth building and goal planning perspective. Although there are limitations on what can be deferred into a 401(k) plan annually, there are comparably little to no limitations on the amount that can be deferred into a deferred compensation plan. Consequently, utilizing a deferred compensation plan can provide executives with a much quicker recovery, obtaining their pre-loss balance rather than having to rely on the constraints of their 401(k) plan. In short, a deferred compensation plan can restore a 401(k) balance quicker.

Company Overview

Mezrah Consulting (MC) is a national executive benefits and compensation consulting firm based in Tampa, Florida. Mezrah Consulting's work is predominantly focused on executive benefits planning for sizable publicly traded and privately held companies. MC is a knowledge company offering its clients highly creative and innovative solutions. MC uncovers value and recognizes risks that other firms typically do not see.

MC specializes in the design, funding, implementation, securitization and administration of non-qualified executive benefit programs. MC has been engaged in this consulting niche for over 25 years, advising companies in over 27 states and providing custom non-qualified plan administration on its proprietary cloud platform. For more information contact Lori Brink at (813) 367-1111 or lbrink@mezrahconsulting.com or learn more at MezrahConsulting.com.

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