Dedicated DB
Defined Benefit Services
an Ascensus® company

1 (866) 269 - 2706
Dedicated-DB.com

Defined Benefit Plans for Farmers

Defined benefit plans are particularly well-suited for farmers who are planning to wind down their business or transition into retirement over the course of the next few years. These plans allow higher contributions generally, the older you are, so farm owners can build retirement wealth quickly over five+ years.

Advantages of Defined Benefit Plans for Farmers

1. Farmers with certain crops, such as grain, can influence how much income they earn by deciding how much of their crop inventory they will sell each year. They can spread the sale of the crop over a number of years, evening out their income. Knowing in advance about how much income they will have can give them the confidence to open a defined benefit plan and commit to funding it for three to five years.

2. The plan will give them a significant tax deduction each year the plan is in place. These deductions help them reduce tax liability without borrowing and investing in more machinery to shelter their income.

3. Pre-retirement, the plan can be structured to allow the older farmers to receive more of the equity they have built up in the business as income. As the basis for their defined benefit plan, the majority of it will be tax-deferred until withdrawn, later in retirement.

We partner with financial advisors who provide financial and tax consulting for farmers. In the past, these farmers have invested heavily in equipment to take advantage of tax deductions but have been slow to build up retirement savings. Defined benefit and cash balance plans allow them to quickly accumulate retirement wealth and take advantage of large tax deductions.

A farmer, age 58, wants to retire in 5 years. He has a multi-million-dollar stockpile of grain that he can sell over the course of 5 years.

Working together with his CPA and financial advisor, Dedicated DB ran scenarios at different compensation levels to help them figure out how much grain to sell, taking into account his other deductions, etc. to arrive at his desired $200,000 annual contribution level. We opened a OnePersonPlus defined benefit plan for him and a OnePerson(k) with optional contributions.

2019 SCHEDULE F (LINE 32) INCOME
$363,000

2019 DB CONTRIBUTION
$219,800

2019 OPTIONAL 401(K) CONTRIBUTION
$41,800

2019 ESTIMATED TAX SAVINGS
$96,800

ESTIMATED DB ACCUMULATION IN 5 YEARS
$1.33 Million

A family farm has four owners: the parents in their 60's and their two sons, in their 30's, who will increasingly take over management of the chicken farm. There is one additional full time employee.

Dedicated DB set up an OwnersPlus Cash Balance + Safe Harbor 401(k)/Profit Sharing Plan that will allow the parents to fund their retirement and diversify their assets.

COMPENSATION

Parents: $216,000 each
Sons: $180,000 each
Employee $40,000

TOTAL CONTRIBUTION FOR PARENTS	TOTAL CONTRIBUTION FOR SONS	TOTAL CONTRIBUTION FOR EMPLOYEE
$360,400	$56,000	$2,800

99% of contribution going to Family

Estimated Tax savings @37%: $155,100

Special Considerations for Farmers

- For farmers nearing retirement, it is not uncommon to have inventory valued over $1 million. Were they to sell it all at one time, they would owe a lot in taxes without having off-setting deductions. If the farmer can spread the sale of the inventory over several years, they can open a defined benefit or cash balance plan and make large contributions to the plan each year. Rather than incur a large tax liability as they are about to retire, taxes are deferred until assets in the retirement plan are withdrawn.
- Many small farms have family members working in the business. A traditional or cash balance defined benefit plan can be designed to provide larger contributions and benefits for the elder members of the family. In this way, they will be taking some of their equity in the business out as income that will help fund their retirement. The senior members can continue to consult to the business with the majority of their compensation funding their tax-deductible plan contribution.
- Farmers who have taken advantage of section 179 of the "Protecting Americans from Tax Hikes Act of 2015" (PATH) often take on debt to buy equipment in order to shelter high income. However, farmers who are older may be less interested in investing in additional equipment. The defined benefit solution can provide the tax deduction without taking on additional debt.

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