HFM INVESTMENT ADVISORS, LLC

Retirement Plan

NEWS AND INFORMATION FOR **EMPLOYERS**

STRENGTHENING FIDUCIARY LEADERSHIP

Q4
2025

5 Advanced Tax Strategies for Employers

Elevating the value
of your retirement plan

> Imagine this: It's year-end and your CPA just reviewed your projected tax bill. Despite contributing to your retirement plan, maximizing deductions, and running a profitable business, you're still writing a sizable check to the IRS. You pause and think, *there has to be a better way.*

If this sounds familiar, you're not alone. Many high-income business owners and executives find themselves hitting the ceiling of traditional planning, maxing out the basics while still exposed to significant state and federal tax burdens that erode long-term wealth.

The solution? Transform your company-sponsored retirement plan into a tax-smart, strategic tool. By applying advanced tax strategies, you can elevate your plan from a standard benefit into a strategy for wealth accumulation and executive retention.

Whether your company offers a new plan or $500 million in plan assets, strategic enhancements can help you defer significantly more income, reduce taxable income, and reinvest back into your people and your own future.

1. PROFIT-SHARING AND TIERED ALLOCATIONS

Most plans include matching contributions, but there's significantly more opportunity when you integrate a profit-sharing component. With an allocation formula, such as New Comparability or Age-Weighted methods, you can direct larger contributions to key executives while satisfying compliance testing.

> According to the *Voice of the American Workplace 2025* study by Franklin Templeton, 41% of employers already offer profit-sharing and 66% offer a 401(k) match, with the average match capping at 25% of employee contributions.[1] How does your plan compare?

1 Franklin Templeton. "Voice of the American Workplace." 2025.

With an advanced plan design, high-income earners could realize up to:

- $70,000 for standard contribution limits
- $77,500 for ages 50–59 or 64+ with catch-up contributions (if your plan allows)
- $81,250 for ages 60–63 with super catch-up contributions (if your plan allows)

These amounts represent total annual contributions including employee deferrals, catch-up contributions, employer match, and profit-sharing. This structure allows for significantly more than the standard employee deferral limits, all while reducing taxable income.

2. CASH BALANCE PLANS

If your company has strong cash flow and steady profits, a cash balance plan can take your retirement and tax strategy to the next level.

When paired with a 401(k), it allows much higher contribution limits, often over $300,000 per year, depending on the owner's age and income. All contributions are tax-deductible to the business, making it a smart way to reduce taxable income while building long-term wealth.

Cash balance plans are especially effective for:

- **Owners and executives over age 45** looking to catch up quickly on retirement savings
- **Professional service firms** (law, medical, consulting)
- **Closely held companies** or businesses with few highly compensated employees

3. EXECUTIVE INCENTIVES & RETENTION TOOLS

Today's top talent, especially in leadership roles, expects more than a simple match. Advanced plans can offer:

- **Deferred compensation programs:** Allow select employees to postpone a portion of income and taxes to a future date, often used to retain key executives through vesting schedules or performance benchmarks.
- **Discretionary profit-sharing:** Let employers allocate variable, performance-tied contributions at year-end, ideal for rewarding leadership in profitable years without locking into fixed obligations.
- **Mega backdoor Roth contributions:** Enable after-tax contributions to a 401(k) beyond traditional deferral limits, which can then be converted to Roth, either in-plan or via rollover. This strategy allows high earners who've maxed out traditional Roth or pretax contributions to achieve additional tax-advantaged savings and diversify future tax exposure.

4. TAX STRATEGIES AND PLAN STRUCTURE ALIGNMENT

If you operate as an S-Corp or partnership, every dollar you contribute for owners and key employees not only reduces corporate taxable income; it often lowers pass-through income, impacting individual taxes as well. Layering tax-deductible contributions into the right structure helps balance short-term tax savings with long-term wealth building.

5. DON'T LEAVE OPTIMIZATION ON THE TABLE

If it's been more than a year since your plan design was reviewed, you may be leaving value on the table. Today's optimized plans are:

- Cost-efficient
- Optimized for tax strategy
- Aligned with generational employee needs
- Built for long-term retention

MAKE THE MOST OF WHAT YOU ALREADY OFFER

You've already invested in your retirement plan. Now's the time to confirm it's working just as hard as you are, helping you defer more income, retain your top people, and reduce tax exposure along the way.

Talk to us about profit-sharing modeling, cash balance plan layering, and owner-weighted strategies that help to deliver maximum value.

Protecting Your Employees from Bad Financial Advice

Why human-led employee education still matters

> It's wonderful to live in a time when answers are just a click away. You can easily find out how many inches are in a meter, get TV show recommendations, and find out where the next Olympic Games will happen. But when it comes to financial advice, the internet becomes a far riskier place.

From TikTok tips to viral Reddit threads, employees are consuming an overwhelming amount of financial content, and not all of it is accurate. Much of it can be misleading, incomplete, or flat-out wrong. And while younger generations are the most likely to seek out this digital advice, they're also the most vulnerable to its consequences.

ONLINE FINANCIAL INFORMATION IS POPULAR

Social media platforms and influencer content are not inherently bad, but they are unregulated. Anyone with a camera and confidence can offer "advice" without any credentials. This opens the door to the kind of misinformation that can lead employees to make costly mistakes.

It's especially concerning for younger employees. A recent survey found that 49% of Gen Z and 43% of millennials have sought financial advice on social media. Top sources for digital advice are Facebook, Instagram, TikTok, Twitter/X, and financial influencers from other platforms.[1]

This may make them more susceptible to making costly financial decisions, such as buying into trendy "get rich quick" schemes, misusing credit, or delaying critical savings milestones like retirement contributions.

1 Bhat, Aru, and Sofia Eckrich. "Are 'Finfluencers' the Future of Financial Advice?" World Economic Forum, 17 July 2024.

THE DRAWBACKS OF ONLINE FINANCIAL ADVICE

While it's easy and convenient to look online for financial advice, the information found may be incomplete, misleading, or inaccurate.

> "While some platforms have added disclaimers or warning labels on financial advice content… the risk of making misguided investment decisions due to misinformation and fraud is greater than the risk would be if the advice was taken from traditional advice channels. In the first six months of 2023, the Federal Trade Commission reported losses totaling $2.7 billion from investment-related fraudulent scams initiated on social media in the US alone; 37% of those fraud losses were reported by investors aged 20-29," explained the World Economic Forum.[1]

When your employees receive and act on poor financial information, it can have a detrimental effect on financial wellness. Workers who are financially stressed may become less engaged and less productive and that can hurt employers.

THE ADVANTAGES OF IN-PERSON EMPLOYEE EDUCATION

While employees will continue to seek advice online, it's possible to help them avoid costly errors by offering in-person financial education at work. A licensed financial professional can engage employees through group meetings or one-on-one sessions. Either possibility will give employees opportunities to:

- Receive personalized financial education from a licensed professional
- Double-check the accuracy and applicability of advice they've found online
- Choose saving strategies that reflect their personal finances and goals
- Build financial confidence while improving their financial security

When employers want to deliver financial education that supports financial wellness and retirement outcomes, partnering with a retirement plan advisor makes a real difference. Advisors can deliver robust financial education programs and fill education gaps with tailored, relatable content that can improve employee decision-making and overall financial wellness.

If you would like a complimentary consultation or a demonstration of our services, please get in touch. We are experienced employee educators who understand the importance of financial wellness.

PROS AND CONS OF FINANCIAL EDUCATION SOURCES

Source	Personalized to Individual	Risk of Misinformation	Supports Financial Wellness	Looks to Improves Productivity
Financial Advisors	Yes	Low	Yes	Yes
Social Media & Unlicensed Influencers	No	High	Possibly	Possibly

Is Your Retirement Plan Ready for Today's Cybersecurity Threats?

Practical steps to help protect participants' data and meet your fiduciary duties

> As a retirement plan sponsor, you are juggling plenty of responsibilities. Investment oversight, fee monitoring, participant education... the list goes on. Now there's another item on your priority list: **cybersecurity**.

If you're thinking "cybersecurity is an IT issue," you're not alone. Many plan sponsors assume data protection falls outside their wheelhouse. But when it comes to your 401(k) plan, cybersecurity is very much a fiduciary responsibility, and it's one that can have serious consequences if you don't address it properly.

WHY CYBERCRIMINALS TARGET RETIREMENT PLANS

Retirement plans contain exactly the type of information cybercriminals value most. Think about the sensitive information stored in your plan's database:

- Social Security numbers
- Birthdates
- Salary information
- Account balances
- Beneficiary details

This treasure trove of personal and financial data represents a one-stop shop for identity theft and financial fraud.

The substantial assets held in retirement accounts also make them attractive targets. With the average 401(k) balance continuing to grow, and many accounts holding six-figure sums, the potential payoff for successful cyberattacks keeps increasing.

WHAT THE DEPARTMENT OF LABOR EXPECTS

The DOL has made it clear that cybersecurity falls squarely within plan sponsors' fiduciary duties. The agency's updated 2024 guidance confirms that all ERISA plans must have appropriate cybersecurity measures in place to protect participants and beneficiaries from cybercrimes.

This means that plan sponsors must exercise the same level of prudent oversight for cybersecurity as they do for investment selection and fee monitoring. Plan sponsor compliance isn't just checking boxes; it's demonstrating that you're taking reasonable steps to protect participant information and plan assets.

BUILDING YOUR CYBERSECURITY FOUNDATION

The good news is that effective cybersecurity doesn't require you to become a technical expert. It does, however, require a systematic approach and attention to key areas that can significantly reduce your risk.

- **Protect data.** Encrypt participant information and require multi-factor authentication.
- **Train employees.** Teach them to spot phishing, use strong passwords, and report issues.
- **Plan for incidents.** Have a response plan to minimize damage and show your commitment to safeguarding participant data.

MONITOR SERVICE PROVIDERS CAREFULLY

Most plan sponsors rely on recordkeepers, payroll companies, TPAs, and other providers. Since these vendors have access to participant data, their cybersecurity practices directly affect your plan's exposure to potential risks.

When choosing a vendor, ask specific questions. Check their security measures, certifications, and incident handling. Don't hesitate to ask the tough questions; your fiduciary duty requires this level of due diligence.

Keep tabs on your providers' security through regular updates and audit report reviews to help confirm they have proper protections in place. Make sure your service contracts include clearly defined cybersecurity requirements and detailed notification procedures for any security incidents.

DEVELOPING YOUR CYBERSECURITY POLICY

A well-documented cybersecurity policy provides detailed guidance for employees, demonstrates your commitment to data protection, and can be valuable evidence of prudent fiduciary oversight.

Your cybersecurity policy should include these essential action components:

- Define what constitutes sensitive plan data and how it should be handled.
- Specify who can access plan systems and under what circumstances.
- Outline mandatory cybersecurity training and ongoing education.
- Establish minimum security requirements for all service providers.
- Detail steps to take when a security incident occurs.
- Schedule periodic reviews and security updates.

CREATING A CULTURE OF CYBERSECURITY AWARENESS

Effective cybersecurity requires buy-in from your entire organization, not just the IT department. Leadership support demonstrates the importance of data protection and helps allocate resources for security initiatives.

Regular communication about cybersecurity threats and best practices helps to promote security awareness.

- Send reminders about common threats.
- Recognize employees who report suspicious activity.
- Update staff on new security measures.

When cybersecurity becomes part of your culture, your potential risks decline significantly.

TAKING THE NEXT STEP

Implementing cybersecurity measures and staying current with evolving regulatory requirements may seem daunting, but keep in mind that you don't have to go it alone. Start by honestly assessing your current cybersecurity practices. Review your existing policies, evaluate your service providers' security measures, and identify any obvious gaps in protection.

> Many plan sponsors find that working with experienced advisors and cybersecurity professionals helps them to develop appropriate protection measures without getting overwhelmed by technical details. Contact us for more information.

HFM INVESTMENT ADVISORS, LLC

For more information on how we support retirement plan sponsors and participants, **visit our website or contact us directly.**

LET'S TALK

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