

Helping you and your employees save for retirement

I find that business owners are a unique in the sense that they do EVERYTHING and need help by experts with their taxes, pensions, HR, operations, IT, etc. In fact, most businesses do not grow because the owner gets stuck in “running their business” rather than spending their time creating opportunities and growing their business. There are many stages of businesses from “start up:” to “established” and we have many tips that we can share along the way. I have presented to start up companies for the SBA, NAWBO, and other organizations about delegating tasks and projects, , hiring the right people, and how to grow their business to create the life the business owner desires. My expertise is setting retirement plans for business owners. In this issue, I will go over some of the reasons that business owners choose a specific type of retirement plan for their company. Keep in mind; this is only the surface, and do NOT take this as final advise!

I have had two conversations this week with two different business owners. Both of them wanted to save money and run their retirement plan through their company. After all, it is better to save pre-tax than post-tax! The main challenge that we ran into was that in order to save as a business owner, we are required to include this benefit to our employees too. We have limited places to save just for ourselves and our families. It is not that business owners do not want to take care of their employees; in fact, most of my clients really do care about their employees becoming financially successful. The problem is that they cannot afford to save for themselves AND the requirements for their employees. Here are some examples:

SEPP: Many small companies with no employees, just family, or very few employees chose this type of retirement plan for their business. You can save up to 25% of your gross salary in a SEPP Plan. Also, there is minimal paperwork and expense, minimal tax filing, and no requirement to make ongoing contributions. The challenge is that you need to include any employees that have been with you three out of the past five years and is age 21 or older. So, if you deposit 10% of your income into this plan, you must do the same for your employees. This can become quite expensive, even if you have only a few employees.

SIMPLE: This is a great alternative to the 401k plan. There is no trust document, and the employee deposits directly into their account. Also nice is that the employer can deposit the maximum (\$11,500, \$14,000 for age 50+) even if the employees choose not to participate. (This is not true in a 401k!) Expense: the employer must choose to match by a) 2% of gross pay, or b) dollar for dollar match up to 3% of gross pay to all participants. Again, with your employees contributing, this can become quite expensive to offer at your company. If you have a \$100,000 payroll, this plan could cost your \$3000 per year. At this point, it may be less expensive to go to a 401k Plan.

401k Plan: Great idea if your employees are going to participate and save money. This can be an expensive problem if you are the only employee that wants to save for retirement. This plan requires a trust document and a TPA (third party administrator). The document costs up front, the TPA is an ongoing expense. Many times, I will see an owner that wants to pay for a 401k, no match, and leave it up to the employees to save for retirement. The problem is that if the owner (or highly compensated employee) has more than 60% of the assets in any given year, the plan is disqualified. Also, the owner cannot save more than 2% over what the average employee saves. So if the average employee saves 5% in the 401k, the HCE can save only 7%. Can this be solved? Sure, the owner has a 401k Safe Harbor Plan, and is required to 3% across the board to the participants.

Profit Sharing Plan: This is the same document as the 401k plan. It is similar to the SEPP in that if you deposit 10% into your retirement, you must do the same for all of your participants. The good news is that many companies will call me near the end of the year and state that they have an extra \$50,000 for example. If they take this in income, it will be taxed. If they deposit this in their PS plan, sometimes they will end up with almost the same amount of money deposited in their plan as the net income that they would have received if they took a check. This is a nice way of sharing your wealth with your employees. Also, there is a vesting schedule, so this will reward your employees who stay and help you grow your company.

Despite the costs to a business owner, many of us want our employees to save for retirements. After all, can we really depend on anyone else to take care of this?

- If you are thinking about starting changing your plan, talk with us about the costs, obligations, and real scenarios to help you decide which plan will suit you best. Be sure the advisor is an expert at pension plans...this tends to be a niche market. I often receive referrals from other advisors that do not know about pension rules and regulations.
- Be sure to take a survey and see if your employees would value a plan. Be sure to analyze whether they will really participate in a plan. If not, it just may not be worth the cost.
- Realize that as business owners, we are responsible for providing a retirement plan for all of our employees, not just ourselves.
- Be sure you can afford the costs of the plan before deciding on anything. The obligations are strictly enforced, and you do not want to be stuck with the wrong plan and too many expenses that you cannot pay.
- Most employees really value having a retirement plan and would not save unless they were encouraged to do so at work.
- If you really cannot afford a pension plan for your employees, install a payroll deductible IRA. This costs you very little with your payroll company, and the employee elects to save for an IRA through their paycheck. Your only cost is the payroll cost of setting this up for you.

If you have any questions regarding your plan, or you know someone that would like to chat with me regarding their company, please send them over.