

Small Businesses Retirement Plans

360 Degrees of Financial Literacy



Offering retirement plans through your business is an excellent way to attract and retain valuable employees—not to mention save for your own retirement. In addition, you're allowed a tax deduction for contributions you make to an employer-sponsored retirement plan. The common thread among all retirement plans is that the contributions must be prudently invested.

There are several types of plans to choose from.

SIMPLE IRA (INDIVIDUAL RETIREMENT ACCOUNT)

SIMPLE stands for "Savings Incentive Match Plan for Employees." This IRA plan allows employees to contribute (defer) up to \$9,000 and mandates an employer match of up to 3 percent of the employee's wages. This type of plan is available for companies with 100 or fewer employees.

401(K) PLAN

This is basically a deferred compensation plan, where employees elect to forgo a portion of their salary and have it paid into the plan instead—where it can grow over time. Employer contributions are allowed, but not required. While some of the fancier plans can be costly to administer, costs for basic plans are coming down. This type of plan is available to all employers.

PROFIT-SHARING PLAN

As the name implies, this plan gives employees a slice of your company's profits. Employers make regular contributions spread among the plan participants, based on the company's profits or performance. Employees cannot contribute. Contributions for plan participants are allocated based upon the plan's formula, which varies, but generally includes a percentage of the employee's salary. This type of plan is available to all companies, but usually requires hiring a professional to administer.

MONEY PURCHASE PENSION PLAN

Money purchase pension plans are similar to profit-sharing plans, but employers are required to make an *annual* contribution—as opposed to just *regular* contributions. They are relatively straightforward and inexpensive to maintain.

DEFINED BENEFIT PLAN

Probably one of the most sophisticated types of retirement plans, defined benefit plans are set up to provide a predetermined annual retirement benefit. You can contribute as much as is needed to give you an annual retirement payout of \$165,000 or 100 percent of final average pay at retirement.

An actuary determines how much will be required each year to fund the projected retirement payments for all employees, and you are locked into making that contribution—regardless of your business' performance.

However, this plan does potentially offer the largest contribution deduction and the highest retirement benefit to business owners.

