Choosing a Retirement Solution for Your Small Business

ERISA

(Employee Retirement Income Security Act of 1974)

- Title I – DOL, EBSA
  - ➔ Reporting and disclosure, fiduciary
- Title II – IRS
  - ➔ Qualification, discrimination, vesting, distributions
- Title III – IRS and DOL
  - ➔ How we work together
- Title IV – PBGC
  - ➔ Defined benefit plans – terminations

Why Offer a Retirement Savings Plan?

- Help your employees save for the future
- Attract and retain quality employees
- Tax savings for your business
- Help secure your own retirement

Tax Advantages of Retirement Plans

- Contributions are deductible by the employer when contributed
- Employer and employee contributions are not taxed until distributed to the employee (except Roth accounts)
- Money in the retirement plan grows tax-free

More Incentives to Start a Retirement Plan

- "Catch-up" rules allow employees age 50 and older to save additional amounts
- Small employers can claim tax credits for the cost of setting up certain plans
- Tax credits for low and moderate-income savers
- Designated Roth accounts

Who Can Start a Retirement Plan?

- There is a plan for every type of business
  - ➔ C Corporation
  - ➔ S Corporation
  - ➔ Sole Proprietorship
  - ➔ Partnership
  - ➔ LLC
  - ➔ LLP

The Basics of Retirement Plans

- IRA-based plans
  - ➔ Benefit = accumulated contributions + earnings
- Defined contribution plans
  - ➔ Benefit = accumulated contributions + earnings
- Defined benefit plans
  - ➔ Benefit = specified amount

Payroll Deduction IRA

- Employer does not adopt a formal plan
- Employee decides whether and how much to contribute
- Payroll deductions allow employee to save small amounts each pay period
  - ➔ Made to IRA
  - ➔ May be tax deductible by the employee

Simplified Employee Pension (SEP)

- Employers set up an IRA for themselves and their employees
- Employer contributions only
  - ➔ Uniform percentage of pay for each eligible employee
  - ➔ Not required to make contributions every year

SIMPLE IRA Plan

- Employer must have 100 or fewer employees
- Employees can contribute through payroll deduction
- Requires employer contributions
  - ➔ Matching employee contributions dollar-for-dollar up to 3% of employee's pay, OR
  - ➔ A fixed contribution of 2% of compensation for all eligible employees

Things to Consider IRA-Based Plans

- Easy to set up and operate
- Low cost to employer
- No annual filing requirement
- No loans
- Directed investments

401(k) Plan

- Employees defer a portion of their salary
- Salary deferrals are not taxed as current income (except Roth accounts)
- Earnings are not taxed until the employee takes a distribution
- Employer contributions may be made
- Employees may be allowed to choose among investment options provided under the plan

Safe Harbor 401(k) Plan

- Employees defer a portion of their salary
- Required employer contributions
  - ➔ Match at least as good as:
    100% of the first 3% of compensation plus
    50% of the next 2% of compensation OR
  - ➔ Non-elective 3% of compensation to all eligible employees
- No nondiscrimination testing

Automatic Enrollment 401(k) Plan

- Employees automatically enrolled, contributions deducted, unless they opt out during election period.

- Increases plan participation

- Automatic contributions may be invested in certain default investments

Safe Harbor
Automatic Enrollment 401(k) Plan

- Qualified Automatic Contribution Arrangement –QACA

- Required employer contributions
  - ➔ Match at least as good as:
    100% of the first 1% of compensation plus
    50% of the next 5% of compensation OR
  - ➔ Non-elective 3% of compensation to all eligible employees

Roth 401(k) Feature

- Similar to Roth IRA accounts
  - ➔ Roth 401(k) contributions are currently includable in gross income
  - ➔ Distribution of Roth 401(k) accounts (including earnings) are excludable from gross income
- Administration

Profit-Sharing Plan

- Employer contributions are discretionary
  - ➔ Formula must be set for determining how contributions are allocated to plan participants

Things to Consider Defined Contribution Plans

- Administrative costs may be higher
- The plan can be simple or complex
- Greater flexibility in contributions
- Employees may contribute more
- Employee deferrals are 100% vested
- Annual Form 5500 filing requirement
- Loans permitted
- Directed investments

Defined Benefit Plan

- Provides a fixed, pre-established benefit for employees
- Employees value fixed benefit
- Employer may be able to contribute and deduct more than under defined contribution plan
- Funding requirements

Things to Consider
Defined Benefit Plan

- Employer contributions required
- Benefit at retirement is easy to determine
- Higher administrative cost
- Enrolled Actuary MUST be hired
- Plan must not discriminate
- Annual Form 5500 and Schedule SB or MB filing requirement
- Loans permitted

One Size Does Not Fit All in Choosing a Retirement Plan

- Type/size of employer
- Type/age of workforce
- Employer/employee goals

Small Business With Employees

- Payroll Deduction IRA
- SEP
- SIMPLE IRA
- 401(k)
    - Traditional, Safe harbor, Automatic enrollment safe harbor
    - Roth feature
- Profit-sharing
- Defined benefit plan

Self-employed vs. Owner/Employee

- Definition of “compensation” for contributions

Seasonal Employer

- Goal to include seasonal employees?
- Goal to exclude seasonal employees?

What's Next...

- Establish
  - ➔ Employers should contact a tax advisor or financial institution for options
  - ➔ Plan document

- Operate
  - ➔ Maintain the plan
  - ➔ Update the plan for any required changes

Resources

- U.S. Department of Labor
  - ➔ www.dol.gov/ebsa
  - ➔ choosingaretirementsolution.org
  - ➔ Interactive "Small Business Advisor"
  - ➔ 1-866-444-EBSA – pubs and Qs
- Internal Revenue Service
  - ➔ www.irs.gov/retirement
  - ➔ 1-800-829-3676 - pubs