

Guideline for Choosing a Retirement Plan for Your Business

Small businesses, and their owners, have many retirement plan options. Choosing the right plan, or combination of plans, can be helpful as part of running the business and helpful to the owner for his or her retirement planning. The rules can get complex and you should consult with a retirement plan professional as part of the decision making process. This guideline provides some basic information and can help make the discussions with the professional more effective.

Why have a plan?

For the owner, a qualified retirement plan can be an advantageous way to accumulate wealth. Contributions to the plan can be tax-deductible, earnings within the plan are tax-deferred and there can be flexible ways to take distributions from the plan.

For the business, providing a retirement plan can be a part of the total employee compensation package. The right plan can help attract, retain and motivate your employees.

How much does it have to cost?

Your cost for a retirement plan will take two forms – company contributions to the plan on behalf of employees and yourself and the cost of establishing and administering the plan. The chart below describes some of the funding features of different types of plans. Choosing a plan that allows for employee deferrals without requiring significant company contributions may be the option that provides the best of two worlds – permits the accumulation of larger amounts of money and keeps the company cost low.

The administrative costs of plans vary. Some plans are as simple as employees having IRA accounts to receive contributions, while others require annual IRS filings and audits. Be sure to discuss administrative costs with your service provider and investigate what provider can provide the services you need at the lowest cost.

How much responsibility do you as the manager want?

Once money is contributed to a plan, it must be managed and someone must make the investment decisions. This may mean the trustee of the plan must make investment decisions (or choose investment managers) or having a plan that enables each participant to manage their own funds. More and more plans are going this self-directed route.

Brief summary of plan types

Features	SEP-IRA	KEOGH	SIMPLE-IRA	401(k)
Eligibility	Self employed individuals, business owners, those with self-employment income	Self employed individuals, business owners, those with self-employment income	Businesses with 100 or less employees not offering other retirement plan	Any public or private company. Usually for companies with more than 25 employees

Advantage	Easy to set up and maintain	Highest contribution limits	Salary reduction with lower administration	More features like vesting and loan provisions
Contribution source(s)	Employer only	Usually, employer only	Employee wage deferral and employer contributions	Mostly, employee wage deferral and optional company contributions
Annual contribution limits	Up to 25% of compensation, with maximum of \$56,000 for 2019.	Up to 25% of compensation, with maximum of \$56,000 for 2019.	Employee: Up to 100% of wages, \$13,000 and up to \$16,000 if age 50 or over for 2019. Employer: EITHER, match employee contributions up to 3% of wages (maximum of \$13,000 for 2019); OR, 2% of employee's wages to \$5,600 for 2019.	Employee: Could be up to 25% of wages up to \$19,000 and up to \$25,000 if age 50 or over for 2019. Employer: Up to 25% of wages, up to combined (employee and employer) maximum of \$56,000 and up to \$62,000 if age 50 or over for 2019.
Vesting	Immediate	Vesting schedules are possible	Employer and employee amounts are immediately vested	Employee amounts are vested immediately. Employer amounts can be subject to vesting schedules
Administrative Issues	No employer filings required	Form 5500	No employer filings required	Form 5500 and special discrimination testing required

Summary

The right retirement plan can serve many purposes. Be sure to investigate all the possibilities to make sure your plan accomplishes what you want. The services of a qualified retirement plan specialist can be very valuable in reviewing your options.