

## **Retirement Plans for Small Business** **Neal Clements, CPA / PFS / ABV**

Many self employed individuals and businesses with only a few employees do not take advantage of the opportunities to establish a retirement plan because they are not aware of the options available. Most everyone is familiar with the 401(k) plan and the opportunity that it provides for retirement savings. However, costs associated with setup and compliance can make that option less attractive to small employers.

There are several other retirement plan opportunities that may be a better option if you have only a few employees. Each of the different types of plans is authorized by various section of the Internal Revenue Code. So as you might imagine, there are complex rules that I will not go into here.

The following is a brief outline of the features of a few of the options available:

### **Simplified Employee Pension (SEP)**

A SEP is a pension plan established by a business on behalf of the employees. Contributions are deposited into the employee's IRA. Contributions are deductible by the employer but are not taxed to the employee until they are withdrawn.

For 2011, an employer may contribute and deduct as much as 25% of each employee's annual compensation to a SEP, up to \$49,000. SEP's have low operating costs and are easy to establish. The plan must cover any employee that is 21 years or older who has worked for the company for three of the last five years, and earns \$550 or more.

### **SIMPLE IRA and SIMPLE 401k**

SIMPLE is an acronym for "Savings Incentive Match Plan for Employees." A SIMPLE plan can be structured as either an IRA or a 401k. In either case, the maximum contribution is \$11,500 for employees under 50 years of age and \$14,000 for those over 50. A SIMPLE IRA plan must cover any employee who is reasonably expected to receive at least \$5,000 in annual compensation while a SIMPLE 401(k) plan has eligibility rules more similar to that of a regular 401(k) plan.

Generally, under both types of SIMPLE plans, the employer is required to match the employee's contribution up to a maximum of 3% of each employee's compensation, however, the SIMPLE IRA provides for a little flexibility.

### **401(k) Plan**

A 401(k) plan can be set up for an employer with a small number of employees. Employees can contribute up to \$16,500 annually, if they are less than 50 years of age, or \$22,000 if they are 50 or older. In addition, the employer can make contributions up to 20% of the employee's annual compensation. The maximum contribution is \$49,000. However, the plan must undergo annual testing to ensure that it complies with rules related to vesting, participation and compliance with other ERISA requirements.

While the 401(k) plan offers the most benefit, they are also generally more expensive to set up and to administer.

## **In Summary**

If your company has only a few employees and you have found that a 401(k) plan is prohibitively expensive to set up and administer, the SEP or SIMPLE option may be attractive. As an employer, you can play an important roll in helping your employees save for retirement. In addition, having a competitive benefits package is an excellent way to hire and retain good employees.