Taylor & Morgan

ASSET MANAGEMENT | CPAs AND BUSINESS ADVISORS

Guide to Retirement Plans

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Introduction

Let's admit it. Business ownership comes with a set of risks. The risks may be smaller when your business is small, but at the same time, the returns that you get on your investment are also small. You may be making profits in your business right now, but that is not always guaranteed.

Let's be optimistic and say that your business manages to deliver profits regularly. Good, but the question here is - where is the profit going? Is it all going into your retirement savings? Probably not!

What we are trying to say here is that it is more important for small business owners to plan retirement savings. It is only you, the entrepreneur, who is responsible for securing your retired years.

You are in-charge of your retirement plans

Retirement is that time of your life when you want to take it easy and live in a carefree way, without the obligation to earn money. If you want to do the things you enjoy during your retired years, you will need money, which you must arrange for while you are still actively working. According to an estimate by financial planning experts, Americans will have to put aside at least 70 percent of the income that they earn during their active working life, to be able to maintain the same kind of lifestyle after retirement.

The problem is that a majority of small business owners are so busy trying to make the business grow that they entirely ignore savings for their retirement. In fact, many people who start a business, especially after quitting a full-time job where they had a mandatory 401(k) with employer contributions, feel that they cannot think about such savings for retirement unless the business is fully established. Some just forget about it, like it was a distant dream that cannot be fulfilled. The result - their future remains insecure.

Point to be noted here - as a business owner, you and only you are solely in-charge of planning for your retirement and only you have to take action.

What is your retirement dream?

Everyone has a retirement dream. Most part of the dream would be to do things that you always wanted to do, but couldn't due to your full-time job commitments. If you want be happy and financially secure after retirement from full-time employment, the first thing you should think about when planning your retirement should be your dreams. Ask yourself these simple questions.

- What does retirement mean to you?
- Where do you want to live after retiring?
- What do you want to do or how do you want to spend your retired days?
- Do you want to stay at home and relax or do you wish to go on a tour around the world?
- Do you plan to work part-time or on a limited schedule? Or do you have no plans of working at all?

Write down the answers to these questions - list all your dreams, no matter how impossible they may seem at the moment. At least, that will get you started and give you an idea about how much income you are likely to need during your retired years.

Take stock of what you have

Another significant part of planning for retirement is to take stock of all the assets and income sources you have at present. This part of planning should be about identifying and analyzing the options you have and how you should go on about meeting your retirement income goals. The gap between what you have and what you want to have may be huge, but it can be bridged.

Be the entrepreneur you are now and you will be able to change, modify and set goals that you need to meet to create a secure as well as safe future for yourself and your loved ones.

Start planning… Now!

It is easy to get lost in the hassles of business management and totally forget about planning your retirement. Considering where you are right now and where you want to be are totally different scenarios, so you need to start planning early to fill that gap. Early retirement planning gives you adequate time to make the required changes to your finances, lifestyle, spending habits *and* saving habits so that you will have enough left for a comfortable or even a lavish retirement lifestyle.

In the coming chapters of this book, we will focus and expand on the points we have introduced to you in this section. So, are you ready to make your retirement dream come true?

Let's gets started then!

Chapter 1: Deciding When to Quit

Many people advance gradually towards retirement. It is a natural progression for them. Consider your employees for instance. With employer's pension and retirement benefit plans to aid their own retirement savings, calling it quits is an easier decision for employees.

Employers unfortunately don't have the same ease in deciding when to quit, and understandably so. For business owners, *when to quit* is never a single decision. It is instead, a series of calculations, speculations and numerous other decisions. The process is overwhelming and consider yourself no exception if you feel confounded. Many Baby Boomers and Millennials face the same daunting decision as business owners.

Being a business owner, you have to find (and fund) all retirement benefits you want, on your own. The good news is, you'll find sufficient help in the process. There exist for instance, some IRS-approved retirement plans dedicated to the self-employed. However, before we delve into the details of that, let's address a critical aspect of retirement that will shape the savings you make and retirement benefits you enjoy. ***When/how will you know it's time to retire?***

Decide: To retire or not to retire

You have more factors to consider when contemplating retirement than the average employee. It is not uncommon to find business owners who shudder at the mere thought of retirement. It would mean giving up the business that bears testimony to their drive, leadership and hard work over the years.

The first thing to do is decide how you feel about retirement. *When* would you feel comfortable in retiring? There may be some business goals that you would like to achieve to feel happy about retirement. Expand business, make acquisitions, increase revenue – just about anything you personally want to achieve.

You can always keep some basic goals as the necessary condition of retirement. When you achieve your long term goals, it would perhaps indicate that you can think about retirement.

Having covered that, here are five additional things you would want to consider during your retirement decision-making process:

- **What is your desired retirement age?**

Once you know how you feel about retirement and have an idea of what (bare minimum) business goals you'd like to achieve before calling it quits – consider at what age you'd like to retire.

Some like to retire in their early forties. Some decide not to retire before hitting the age of 70. Have a rough age in mind when you think you'll be able to consider retiring. This is important because you need to plan retirement savings in relation to the desired age of retirement.

- **What will happen to the business post your retirement?**

You have toiled away for hours, days, weeks, months and years to create the business but cannot oversee it through its entire run. You can however, decide what happens to it after you're not in charge anymore.

What would you like to do with the business when retiring? The options are quite limited. You could either sell it, take it public or shut it down completely.

Selling the business will help you convert its value into cash. If you're wondering just who would choose the last option, you'll be surprised to know just how many business owners end up with it. Lack of sufficient knowledge or a conducive plan are two common reasons this happens.

- **Who will take over the business?**

If you don't want to shut your business down and walk away with nothing from it, consider who would you like to hand it over to? You could sell it to – a) an interested third-party buyer, b) your children, or, c) your employees.

Selling to third-party buyers is no small task and should not be done without discussing the prospects with advisers. There are many traps that you want to stray clear of. Handing the business to children has its own complexities. From deciding which child gets what to carrying the transaction out by estate freeze and other methods, the decisions to be made are numerous.

If you can't find a suitable successor in the family or do not want to take the risk of passing the business on to a third party, you may want to sell it to a favorite (and deserving) employee (or a group of employees). Again, you want to be sure of the amount of control you want to pass and sell shares accordingly.

Who takes over the business will determine how much cash you get out of the business and will affect the mode of saving you choose. The importance of discussing succession in terms of your financial, legal and tax liabilities cannot be stressed enough here. Ensure that you have proper help and guidance when taking these key decisions.

- **How much will you need for your retirement years?**

Would you like to move to a different community after retirement? Would you want to pursue all the hobbies and activities that you couldn't while you were working? Perhaps you may want to travel around the world. Or do you want to spoil your grandchildren with love and gifts? Depending on your retirement goals, you need to estimate the amount you'd need to enjoy retirement.

Weigh in inflation costs, future price rises, and medical costs and keep a good margin to cover you in unexpected situations. Did you know that a whopping 66 percent Baby Boomers fear that they may outrun their retirement savings? A retirement-age couple (65 years old) typically needs $220,000 to meet their healthcare requirements during 20 years of retirement. What is the condition of your health right now? How much will Medicare and other insurances cover you for?

Get into as many details as you can when calculating how much you need to save for retirement. The trick is to account for future uncertainties while planning.

- **How will you save?**

Now consider how you will amass all that money you need for a happy retirement. It makes good sense to include a legion of different methods to ensure that you save enough and save fast. This brings us to the mistaken notion that selling off business will help you fund the retirement.

Relying too heavily on the sale of your business to fund your retirement is one of the biggest and costliest mistakes you can make in retirement planning. Not only is it uncertain, but it is also highly unlikely that you'll get the valuation you expect.

Create a retirement plan that includes money management and savings. Follow the plan closely. There are some great options for business owners and we'll cover that in the following chapters. It's important to mention here that you need to chart your savings journey based on your current finances right up to the desired retirement-time income.

Chapter 2: Top Four Retirement Saving Options You Have

Finding a retirement plan that works the best for *you* in particular, involves several important considerations. Would you prefer a plan that allows for simple administration or one that helps you maximize contributions from others? Do you have independent contractors or common-law employees? Could you change from one to the other in the future?

Finding the best retirement plan also depends on the type of business you own. A plan that works well for business owners who are sole proprietors may not work as good for small businesses with say a 100 employees. However, don't let the abundance of options get to you.

Overall, there are four great retirement saving options that work rather well for business owners and you can choose one (or more) from the group. Your choices include – 1) Simplified Employee Pension Plan (SEP IRA), 2) Savings Incentive Match Plan for Employees (SIMPLE IRA), 3) Traditional 401(k) Plan, 4) Self-Employed 401(k) Plan, 5) Salary Reduction Simplified Employee Pension Plan (SAR SEP) and, 6) Profit Sharing.

If you don't have any common-law employees and are certain that you won't need to hire any in the future as well, you can choose Individual Retirement Arrangement (IRA). If your finances allow you to make larger contributions than the maximum allowed in Roth/traditional, you can step it up a notch on the IRA ladder and move to Simplified Employee Pension Plans.

On the other hand, if you have employees or are expecting some in the near future, you can explore alternatives beyond the IRAs. These include options like Payroll Deduction IRA and Profit Sharing. However, the most commonly used plans are numbers one to four mentioned above.

Their popularity lies in the fact that they can be used to great results by business owners and offer significant advantages over other plans. Let's consider each in detail.

- **Simplified Employee Pension Plan (SEP IRA)**

SEP plans provide some of the easiest and cheapest ways of setting money aside for retirement. Business owners can make easy contributions in their (and employees') retirement accounts using these plans. SEP IRA plans are as easy to set up and maintain as they are inexpensive.

Key features

SEP IRA plans can be set up easily by adopting the ***Form 5305-SEP***. Alternatively, employers can choose to adopt a plan document that has been individually designed to suit their needs. However, if the *Form 5305-SEP* is used in the establishment of the plan, the employer can make use of no other retirement plans, but another SEP.

Only employers are eligible to make contributions, which must be matched for all qualified employees. There exists a maximum contribution limit that is set/updated by the Internal Revenue Service annually. The contributions are made on the Tax Day for the previous tax year. For the tax year 2014 for instance, the maximum allowed SEP IRA contribution by employers is 25 percent of the net earnings from employment, or up to $52,000, whichever is less.

Net earnings for a business owner would be the gross income (total sales revenues) that is left over after all expenses related to taxes, interest and running the business have been deducted. Employees are 100 percent vested (immediately) to the amount in their SEP IRAs.

Benefits

- SEP plans are available to business of any size. Right from self-employed businessmen and women to small business owners, sole proprietors, corporations, partnerships and S corporations.

- They are not only easy to set-up and maintain, but also cost less when compared to the traditional retirement plans.

- There is no cost associated with start-up and annual maintenance.

- Annual filling of Form 5500 is not required. Annual contributions by the employer are flexible.

- SEP IRA contributions are tax deductible.

When to use

If cash flow is an issue for you currently, or you think it may become a problem sometime in the future, SEP IRAs will turn out to be a good plan. You can increase contributions toward each employee's account in times of good business and decrease when times are bad.

A word of caution – Since you are required to make the contribution on an annual basis, it will be safe if you set up an automatic monthly transfer from the business checking account to savings account. End of the tax year, depending upon the maximum contribution allowed by the IRS, you can decide how much of the saved money should be put aside in your (and employees') retirement savings accounts.

You can also make withdrawals from your SEP IRA at any time. The withdrawal will however, be treated as earnings and subjected to income tax of the ongoing tax year. If you withdraw before turning 59 and a half years of age, you may have to face a 10 percent penalty.

- **Savings Incentive Match Plan for Employees (SIMPLE IRA)**

SIMPLE IRA plans allow business owners to set money aside for themselves (and employees), but is limited to small businesses only. Like SEP IRAs, SIMPLE IRA plans are devoid of the high start-up and maintenance costs of the traditional retirement plans. They present low cost options that include a per participant fee of $25 or a plan fee of $350.

Key features

SIMPLE IRA plans can be set up by adopting the forms ***5305-SIMPLE*** and ***Form 5304-SIMPLE.*** Alternatively, a plan document that has been individually designed for the business can be used to establish a SIMPLE IRA. Employees may choose to contribute personally to their retirement accounts and are 100 percent vested in all the money, like in the case of SEP IRAs. The business owner can make use of no other retirement plans when using SIMPLE IRA.

Contribution options of employees include the choice of salary deferral that allows an employee to contribute 100 percent of his or her tax compensation. Its maximum limit as of 2014, is $12,000. Employers have the option to contribute 2 percent of the individual compensation of each employee, or, match the contribution made by the employee, dollar for dollar. The contribution is limited to three percent of the employee compensation or $12,000. There are no annual contribution limits to SIMPLE IRAs.

Benefits

- SIMPLE IRA plans are salary reduction plans that are rather easy to set up.
- No annual filling of Form 5500 is required by the business owner.
- Operating costs are low.
- SIMPLE IRA contributions are tax deductible for the business owner.
- Employees can share some of the retirement funding responsibility of the business owner by making pretax contributions to their own accounts.

- While the contributions are not flexible like SEP IRAs, SIMPLE IRAs do provide for some of the lowest contribution limits in retirement plans.

- Business owners and employees aged 50 or above have the additional option of making catch-up contributions to their SIMPLE IRAs, subject to a maximum of $2,500 as of 2014.

When to use

If you have employed less than 101 people, SIMPLE IRAs can be a significant contributor to retirement income. It also works well for corporations, S corporations, partnerships and sole proprietors.

You can make withdrawals from your SIMPLE IRA any time, but will have to face certain penalties while taking out money before the age of 59 and a half. For instance, business owners who withdraw within the first two years of taking out the plan face a 25 percent penalty. Those who withdraw after the first two years (but before turning 59 and a half) face a penalty of 10 percent.

- **Traditional 401 (k) Plan**

The traditional or simple 401(k) plan allows business owners and employees to contribute to their retirement savings. It is a profit sharing option that has been qualified by the Internal Revenue Code and offers some significant tax advantages to business owners.

Key features

The contributions made by the employee (and subsequent earnings from the plan) are tax-deferred. That is, they are subject to income tax after the money has been withdrawn as retirement income. Employers can either make a non-elective contribution (add a certain percentage of the employee's compensation) to the employee retirement account or match the amount contributed by the employee, dollar for dollar. They can also do both at the same time.

The contributions are deductible on business owners' income tax return, and elective deferrals as well as gains are tax-free until distribution. Annual nondiscriminatory testing is required and employers must conduct the Actual Contribution Percentage Test (ACP test) and Actual Deferral Percentage Test (ADP test) to ensure that highly compensated employees do not enjoy discriminatory favors.

Benefits

- Easy to set up and operate.
- No annual maintenance costs.
- Flexibility of plan. The non-elective contribution made by business owners can be changed every year, depending upon the cash flow of that year.
- Matching contributions allow for higher amount of tax saving for employers.
- A catch-up contribution of up to $5,500 is allowed for participants who are 50 years of age or older.

When to use

Since 401(k) contributions are pretax, they are deductible from your taxable income for the year. This also means that you will have to pay income tax on your 401(k) money *after* you withdraw it during retirement. So, when you retire, if you expect to fall in the lower tax bracket, a traditional 401 (k) plan will be a good choice.

A word of caution – Again, you must set up an automatic transfer of money from your checking or savings account to ensure that you don't miss any month. Your employees have the luxury of direct 401(k) deductions from their paycheck, but you don't. You will have to remember (and make) your 401(k) contributions on your own.

- **Self Employed 401 (k) Plan**

Self-employed 401(k) plans allow business owners and self-employed tax payers to make rather generous contributions to their retirement account. Also known as Solo 401(k), One-participant k, Solo-k or Uni-k, self-employed 401(k) plans are essentially the same as traditional 401(k) plans, with the same rules and requirements as the latter.

There is one exception, however. Self-employed 401(k) plans only cover a business owner with no employees. They can be used by business owners and self-employed individuals who have no intention of adding any employees to their business, except maybe a spouse. S corporations with no common-law employees, sole proprietors, corporations and partnerships can use the self-employed 401(k) plan to get great retirement benefits.

Key features

A business owner can make contributions in the capacity of an employer or employee. As an employer, contributions can be made to a maximum of 25 percent of the compensation or $52,000 (for 2014). In the capacity of an employee, the business owners themselves (or their spouses) can contribute up to 100 percent of their monthly compensation, subject to the condition that it does not exceed $17,500 (for the tax year 2014). As the case with traditional 401(k) plans, business owners must fill the annual Form 5500 when their self-employed 401(k) assets go over $250,000.

Benefits

- No set-up fees.

- No annual maintenance fees.

- Since business owners have no common-law employees, establishing a solo-k plan involves no nondiscriminatory testing.

- Two options [Roth and regular 401(k)] are available for contributions and business owners can choose one that suits them better in a particular tax year.

- Both Roth and traditional solo-k contributions can be made simultaneously, on the same account in the same year, as long as you don't exceed the annual contribution limit. Neither SIMPLE IRA nor SEP IRA provides this level of flexibility.

- They allow for some of the highest contribution in all retirement saving options. A catch-up contribution is allowed for business owners who are aged 50 or more. For the tax year 2014, the maximum catch-up amount is not to exceed $5,500.

When to use

They are a good option if you want to make the highest contribution for yourself and a working spouse. If your tax bracket is likely to be on the higher end, when you retire, self-employed 401(k) plans will provide a good source of retirement income. You can make Roth contributions while saving. Contrary to pretax contributions, Roth contributions require you to pay the income tax before putting the money in your retirement fund. This means your withdrawal in retirement will be tax-free.

It is to be noted here that solo-k plans do not allow in-service withdrawals except in situations when a trigger event (like plan or business termination) occurs. For in-service withdrawals by people under 59 and a half years of age, a penalty of 10 percent is levied.

Chapter 3: What Exactly Are Keogh Plans and Defined Benefit Plans

Having discussed the top four retirement plans, let's move on to some other options that can be used by employers (of small businesses specifically) to a number of good measures. These include, and are definitely not limited to – a) reduction of tax burden, b) recruitment (and retention) of employees, c) shielding of assets, and of course, d) funding of retirement income.

Contributions to qualified retirement plans are tax deductible while the earnings from the plan are tax-deferred. As we've discussed before, options that will turn out to be the most beneficial for you in particular, depend on the structure of your establishment and your retirement goals, among other things. Keogh Plans for instance, allow self-employed individuals and business owners to make the most of the retirement plans for themselves, while helping an employee fund his or her retirement at the same time.

What is a Keogh Plan?

A Keogh Plan is a tax-deferred retirement savings plan that can be used by self-employed individuals and small businesses in the US. Once a popular pension plan choice of the high-income self-employed, Keogh Plans have now been replaced by Simplified Employee Pension plans (SEP IRAs) in popularity. Though largely overlooked, they continue to present some great investment and retirement funding opportunities to self-employed citizens as well as business owners.

Who can use a Keogh Plan?

Availability of a Keogh Plan is limited only to owners of unincorporated businesses. If you operate as a sole proprietor, a limited liability company (LLC), or a partnership, *and,* provide personal services to the business, you can use a Keogh Plan.

Key features of a Keogh Plan

Keogh Plans derive their name from New York Congressman Eugene J. Keogh, who spearheaded the motion in US. Congress to establish them. They come in three varieties:

- Money Purchase Plans (preferred by those with high incomes)
- Profit Sharing Plans (preferred by owners who want flexibility)
- Defined Benefit Plans (preferred by owners who want high annual minimums)

Money Purchase Plans and Profit Sharing Plans fall under the broader category of “defined contribution” pension plans. It must be noted here that the term “Keogh” is seldom used in its original sense anymore. It is instead, used to refer to Profit Sharing Plans alone.

What is a Profit Sharing Plan?

A Profit Sharing Plan is very similar to a SEP IRA in the sense that it allows business owners to make contributions to their retirement account as well as that of their employees. The contribution is capped at 25 percent of the compensation and the owner is required to match the percentage contribution to his/her account with that to the account of each qualified employee.

This means, if you choose a Profit Sharing Plan and set aside 15 percent of your earnings for the plan each month, you must do the same for each employee who is a participant – set aside 15 percent from his or her compensation for the plan.

What is a Defined Benefit Plan?

A Defined Benefit Plan is similar to a classic pension plan. Here, a participant is promised a fixed amount of money on retirement and the monthly *benefit* that he/she gets on retirement is predetermined (or *defined*) at the time of setting up the plan. As of 2014, the maximum benefit a participant can receive on retirement is $210,000. In 2013, the maximum limit stood at $205,000. It does not have contribution limits.

The Employee Retirement Income Security Act of 1974 is the governing legislation for defined benefit plans taken out by business owners from the private sector. As a business owner funding retirement with the help of a Defined Benefit Plan, you decide the annual income that you want from your pension. Then, you calculate the amount of money that must be set aside to reach the desired pension and contribute the same amount.

Defined Benefit Plan contributions are deductible from taxes each year. Further, this plan authorizes joint distribution, so a spouse is entitled to receive half of the benefits of a deceased participant.

Primary differences between Profit Sharing and Defined Benefit Plans

When making a choice between Keogh Plans and Defined Benefit Plans, consider the following features that set the two apart -

Profit Sharing Plans are more flexible than the Defined Benefit Plans

Profit Sharing Plans allow you, the business owner to alter the contribution amount on a yearly basis, depending upon the profit of the business, changes in employee compensation and other factors. They are discretionary since you can choose to contribute from zero percent to the maximum contribution allowed for the tax year. Defined Benefit Plans on the other hand, are strict since the benefit amount has been predetermined.

Profit Sharing Plans are subject to market risks but not Defined Benefit Plans

The retirement income generated out of profit sharing plans depend upon the performance of the plan. How good or bad your company does, will affect how much you contribute to the

plan. Defined Benefit Plans on the other hand, promise a definitive sum, regardless of how good or bad the performance of the plan has been.
The benefit formula used to determine the amount a retiree receives, uses historic data pertaining to employee specific metrics like his or her age, service tenure and earning history. It does not consider the investment returns of the individual, which makes it free of investment risks.

You will also bear the sole liability of investment and may need to fetch money from elsewhere in the business to match the predetermined contribution amount, if the plan doesn't perform well.

Profit Sharing Plans are less complicated than Defined Benefit Plans

Though both the plans involve significantly larger amount of paperwork than other retirement options like SEP IRAs, Defined Benefit Plans can get more complicated than the other. You will require professional assistance in administering the plan and could incur larger financial toll as a result.

Profit Sharing Plans are not as fast as Defined Benefits Plans (in a short time frame)

Defined Benefits Plans offer business owners some great opportunities to accumulate larger retirement income, faster than Profit Sharing Plans. Say you are 40 years of age, make $120,000 a year now and have decided to open a Defined Benefits Plan. In the first year, you contribute 40 percent of your pay toward retirement ($40,000) and have it deducted from income tax. The next year, you will be able to contribute more than 50 percent toward retirement, based on anticipated hikes in the amount needed to meet your pension goal. You will also be able to write it off as a deductible. By the time you are 55, you may be able to contribute 100 percent of your compensation.

Further, in a Defined Benefits Plan, you can benefit from the surplus investment earnings and gain a larger percentage of the benefits from favorable performance of pooled assets.

Chapter 4: Which One Is the Best for Your Business

Now that is a rather subjective question, isn't it? So far, we have discussed six of the most opportune business retirement solutions for a business owner. However, the one that works the best for *you* in particular will depend on factors that are personal to you and your business.

Retirement plans are a critical long term investment. Instead of settling for a generic solution, you would want to carefully choose one that caters to your specific needs. Here are five considerations that will help you take an informed decision -

Your current lifestyle

What type of lifestyle do you currently enjoy? You will most probably, want to continue with the same lifestyle after retirement as well. Retirement is after all, when the golden years begin and you don't want to be deprived or forced to live down, during those years. Therefore, before zeroing in on a retirement plan for yourself (and employees) keep in mind the current lifestyle you have.

A good idea is to consider the budgetary requirements of your current lifestyle and add inflation and anticipated changes in future costs in them. The amount you arrive at should ideally be the retirement income to aim for. Alternatively, you could choose a plan that allows savings of 90 percent of your pre-retirement income. Industry experts maintain that Americans require anywhere between 70 percent and 90 percent of their income before retirement, to maintain the same lifestyle after retirement.

Your retirement goals

What are your retirement goals apart from maintaining your pre-retirement lifestyle even after you have retired? Being a business owner may have prevented you from doing things you love. You may want to travel with your spouse. You may want to start golfing. The list just goes on. If you haven't decided already, decide what your retirement goals are, before choosing a retirement plan.

Your eligibility

Not all retirement plans can be used by all employers. Once you have decided on the amount you must set aside for retirement (based on your retirement goals and lifestyle considerations), it is time to check the options available to *you* in particular.

IRA-based retirement plans that make payroll deductions and SEP IRAs for instance, can be used by any business owner with one or more employees. However, SIMPLE IRA plans cannot be used by owners of businesses with more than 100 employees. It makes sense to consider your future prospects too. Do you expect to hire more employees in the future or expand your business such that your business falls out of an eligibility criteria?

Similarly, limitations exist on how many retirement plans you can maintain. SIMPLE IRAs for instance can only be used by employers with less than 100 employees *who do not have any other retirement plans in action.*

Eligibility of the employees you cover

Different plans bind you to different *minimum employee coverage requirements*. 401(k) plans and Profit Sharing Plans must be offered to *all employees,* 21 years or older, who have worked for 1,000 hours or more in the previous year. Minimum requirements in plans like SEP IRAs and SIMPLE IRAs are defined on the basis of compensation and years of service. Plans like Payroll Deduction IRAs on the other hand, have no set of minimum employee coverage requirements and can be offered to anyone at your discretion.

Your contribution plans

Do you want to make sole contributions for your employees? If yes, you cannot use SIMPLE IRAs or salary deductions IRAs. Do you want employees to share the burden of funding their retirement? If yes, you cannot use SEP IRAs. Different retirement plans have different criteria of contributions and you want to pick one that aligns with your plans.

Similarly, there exist some plans that give you the freedom to decide how much to contribute each year (SEP IRAs). Plans like SIMPLE IRAs on the other hand, mandate you to match contributions with employees' contributions or contribute a fixed amount (two percent of each participant's compensation). Depending upon the type of business you operate, cash flow and other conditions, you would want to choose a plan that allows you to make easy, hassle-free contributions.

If contribution plans for your own retirement account are high, you may want to choose plans like Defined Benefit Plans, which allow you to combine it with a SEP IRA or a solo 401(k). This way, you can manage different accounts and put aside more than $150,000 annually for retirement.

Rules regarding withdrawals, loans and payments

IRA-based plans like SIMPLE and SEP IRAs allow a participant to withdraw anytime, subject to certain penalties and the income tax of the year. However, unless a “trigger event” occurs, you will not be able to withdraw money from Defined Contribution Plans like Profit Sharing Plans and 401(k) plans. You also want to check if the plan permits loans and hardship withdrawals, among other conditions as well as the penalties you may be put under, in case of an in-service withdrawal. 401(k) plans for instance, allow business owners to use their retirement assets for borrowing.

What are some good things to look for in a plan?

- **Ease of setup and maintenance –** Plan setup procedure and annual paper work are two things you want to keep as simple and easy as possible. SEP and SIMPLE IRAs are some of the easiest plans to setup and maintain.

- **Affordability of setup and maintenance –** You can write-off costs related to setup of SIMPLE IRA as a business expense. Administrative costs are low for SEP and SIMPLE IRAs.

- **High contribution ceilings –** Many plans place a cap on the maximum amount that can be contributed in a year. You want a retirement plan with high limits of annual contribution so that you can put aside sufficient money for retirement. SIMPLE IRAs for instance, offer higher contribution limits than tradition or Roth 401(k).

Note - Oftentimes, you may have to choose between high contributions and ease/affordability of setup and maintenance. Solo-k plans for instance provide higher contribution options and limits for the business owner. They are however, more complicated and expensive. Keep your priority in mind. *What is more important – easy administration or higher contribution?*

- **"Catch-up" contribution opportunities –** You would want to settle for a plan that allows "catch-up" contributions, where participants of (or above) 50 years of age can make additional contributions to their retirement savings. Different plans have different limits of "catch-up" contribution, so choose one that fits your needs the best.

- **A Roth option –** A retirement plan that includes a Roth program can provide you an additional method of saving for retirement. By linking a Roth program to a regular 401(k) plan, you can make after-tax donations in separate accounts. Further, earnings from Roth accounts (that have been held for five or more years) are typically tax-free, when distributed after the participant has reached 59 and a half years of age or is disabled.

- **Appropriate tax credits –** You want a plan that offers you tax-deferred growth potential and other tax-related benefits like tax credits and deductions. Many retirement plans, including SEP IRAs and SIMPLE IRAs can be used by small business owners to claim tax credits (of up to $500) to cover the cost of setting up as well as operating the plan for employees. Similarly, self-employed citizens can make use of a different set of tax credits when taking out retirement plans. Generally, you can deduct your SEP IRA, SIMPLE IRA, 401(k) (traditional as well as Roth) and Money Purchase Plan contributions as business expenses.

Conclusion

The benefits of setting up a retirement solution are numerous for a business owner. Not only do you increase the value of your “compensation and benefits” package for employees, but also reap the benefits yourself. Investing in a retirement plan secures your future by ensuring that you do not have to rely on the (often unfair and low value) proceeds you get from selling your business at the last minute.

Further, with the government working hard toward encouraging business owners to provide retirement benefits, you are sure to receive lucrative tax advantages. ERISA-qualified plans provide tax exemption to plan assets, offer annual tax deductions on contributions and defer taxes on the income from retirement plans, until their distribution. In certain situations, business owners providing retirement plans qualify for special tax treatment as well.

Retirement plans can also be used to attract and retain employees. If you are a new start-up and have incurred high costs or have little cash in hand while employing, you can use retirement plans to make employee compensation more appealing. Profit Sharing Plans are known to have helped many business owners enhance motivation and productivity of employees.

However, none of these benefits are as important as the primary benefit of taking out a retirement plan – security. As a business owner who has worked for years setting up and growing the business, you will find empowerment at the hands of a carefully selected retirement plan. Retirement should be the time of your comfort. Right from being self-sufficient in your post retirement years to having sufficient funds to enjoy your free time – retirement planning is important to ensure that you can enjoy the days for which you've been working hard.