OFFERING RETIREMENT PLANS THROUGH YOUR BUSINESS

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 eligible 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 a certain amount and mandates an employer match of up to 3 percent of the employee’s wages. The secretary of treasury makes annual cost-of-living adjustments to the maximum dollar amount. Employees who have attained age 50 by the end of the calendar year may elect to make a “catch-up” contribution in addition to their regular contribution. The catch-up is indexed for inflation and increased in $500 increments.

Only companies with 100 or fewer employees may establish SIMPLE IRAs.

TRADITIONAL AND ROTH INDIVIDUAL RETIREMENT ACCOUNTS

Within certain limitations, contributions to traditional IRAs are tax-deductible, whereas contributions to Roth IRAs are not. But when you retire and begin withdrawing from a traditional IRA, the amount you withdraw will be taxed. Withdrawals from Roth IRAs are not taxed. If you are enrolled in an employer-sponsored retirement plan, you cannot contribute to a traditional IRA; you can do so to a Roth IRA, however.

Each year there is a limit as to maximum you can contribute to all your IRAs combined. The limit is annually indexed in $500 increments, adjusted for the cost-of-living. Depending on your filing status and your modified adjusted gross income (MAGI), you may be able to fully deduct your contributions to a traditional IRA on your income tax. Your eligibility to make a full contribution to a Roth IRA depends on your filing status and your MAGI. Regardless, depending on your MAGI, you may be able to take a partial deduction for contributions to a traditional IRA, and you may be eligible to make partial contributions to a Roth IRA.

There are maximum MAGI limits, however, after which you cannot take deductions for contributions to a traditional IRA and after which you may not take out a Roth IRA. As the IRS readjusts the MAGI limits each year, you will need to annually check your status regarding deduction eligibility for a traditional IRA and contribution eligibility for a Roth IRA.

TRADITIONAL AND ROTH 401(K) PLANS

A 401(k) plan is a deferred compensation plan in which 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.

There is a maximum amount an employee under the age of 50 can contribute to a 401(k). Employees age 50 or older can contribute an additional amount under the law’s “catch-up” provision. In a traditional 401(k) plan, employee contributions to the plan are tax deferred. These amounts are adjusted annually. Contributions to a traditional 401(k) are not included as part of the employee’s adjusted gross income on his or her tax return. When the employee retires and begins to withdraw funds from the 401(k), those funds are then taxed.

A 401(k) plan may permit an employee to irrevocably designate some or all of his or her elective contributions under the plan as Roth contributions. The plan must contain language that allows for these Roth contributions, however. Contributions to a Roth 401(k) are taxed, but withdrawals are not so long as they meet certain qualifications. The annual individual elective contribution limit (aggregate of all designated Roth contributions and traditional, pre-tax contributions) are subject to cost-of-living adjustments annually.

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 do not...
make any contributions. Contributions for plan participants are allocated based upon the plan’s formula, which varies, but generally includes a percentage of the employee’s salary.

Again, tax law limits the maximum amount an employer can contribute to a PSP per employee to a certain dollar amount adjusted annually or 25 percent of the employee’s compensation, whichever is less. Establishing a profit-sharing plan 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 annually designated retirement payout 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.

KEOGH PLANS
Keogh plans provide an excellent way for self-employed persons and their employees to save for retirement. Keogh contributions are fully deductible and the income generated by investments in the plan is tax-deferred until withdrawn, typically at retirement, when it will be taxed as ordinary income.

You are eligible to establish a Keogh retirement plan, if you are (1) a sole proprietor; (2) a partner in a partnership; (3) the owner of an incorporated or unincorporated business; or (4) working as a consultant or independent contractor. In fact, as long as you have self-