Retirement plan for small business

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What is a Small Business?

- 500 or fewer employees for most manufacturing and mining industries
- 100 or fewer employees for all wholesale trade industries
- $6 million per year in sales receipts for most retail and service industries
- $27.5 million per year in sales receipts for most general and heavy construction industries
- $11.5 million per year in sales receipts for all special trade contractors
- $0.5 million per year in sales receipts for most agricultural, forestry and fishing industries
Retirement Plans For Small Businesses

- Easier than most people think
- Various options that provide tax advantages for
  - Employees
  - Employer

Why Save?

- Help employees save for their future
- Help you attract and retain qualified employees
- Offer you business tax savings
- Secure your own retirement as well
Pension Facts

- Most private sector retirement plans are either
  - Defined Benefit plans, or
  - Defined Contribution plans

- Defined Benefit Plans
  - Provide a specified benefit at retirement

- Defined Contribution Plans
  - Do not promise a specific amount of benefit

We will focus on the Defined Contribution option. Specifically,
- SEP’s
- SIMPLE Plans
- 401K’s
- Payroll Deduction IRA’s

Retirement Plan Quick Review

- Choose a financial institution (must be approved by the IRS) to set up your plan
- Enroll your employees and start salary reduction contributions
- Deposit contributions timely
- Tell your employees about their rights under the plan
  - Summary Description
  - Annual Election Notice
- Monitor your trustee
SEP’s – Simplified Employee Pensions

- Allows employers to set up a type of IRA account, known as a SEP IRA (No ROTH IRA) for themselves and their employees

- Eligible employees must have (cannot make it more restrictive)
  - Reached 21 years of age,
  - Worked for you in at least 3 of the last 5 years
  - Has received at least $500 in compensation in 2007

- Employers must contribute a uniform percentage of pay for each employee, although the employer does not have to make contributions every year.

- For 2007, employer contributions are limited to the lesser of 25% of an employee’s annual salary or $45,000 (indexed for inflation)

- Contributions are tax deductible
Implementing SEP plans

- Contact a retirement plan representative of a financial institution that offers retirement plans
- Fill out IRS Form 5305 – SEP or similar plan document
- May be established as late as the due date of the company’s income tax return for the year you want to establish the plan
- Low startup and operating costs
- You, the employer, decide how much to put in each year
- Flexible when business conditions vary
- May qualify for startup tax credit

SIMPLE PLAN
Savings Incentive Match Plans for Employees of Small Employers
SIMPLE - IRA

- A salary reduction plan
- For businesses with 100 or fewer employees
- Compensation requirements: $5,000 or more for two previous years and upcoming year.
- Allows employees to contribute a % of their salary each paycheck and to have their employer contribute also.
- Employees can set aside $10,500 (for 2007) thru payroll deduction.
- Employers either match employee contributions dollar for dollar, up to 3% of an employee’s wage, OR.
- Make a fixed contribution of 2% of pay for all eligible employees.

SIMPLE - IRA

- Implementing a SIMPLE plan
  - This option involves a type of Individual Retirement Account (IRA) for each employee
  - Must be set up between January 1 and October 1 of the year
  - Fill out IRS Form 5304 or 5305 to establish a plan and ensure that IRA accounts are set up for each employee
  - Much of the paper work is done by the financial institution that handles the plan accounts.
  - Administrative costs are low
  - Employer may choose either to permit employees to select the IRA to which their contributions will be sent, or
SIMPLE - IRA

- Implementing a SIMPLE plan (Cont’d)
  - To send contributions for ALL employees to one financial institution (which will forward contributions of employees who elect a different IRA)
  - Employees are 100% vested in contributions, decide how and where the money will be invested, and KEEP their IRA accounts even when they change jobs.
  - SIMPLE IRA plans are NOT required to file annual reports with the government.
  - However, Trustee files Form 5498 IRA Contribution Information.
  - Distributions from the plan are reported to the IRS.
  - May qualify for startup tax credit
  - Other Rules

SIMPLE 401(K) Plans

- Very popular
- Can vary significantly in complexity
- Employers may also contribute to an employee’s by making employee contributions
- Amounts governed by law
- Allow higher contributions than SIMPLE plans and IRAs.
- May qualify for startup tax credit
Payroll Deduction IRA’s

- Even if an employer does not want to adopt a retirement plan, it can allow its employees to save through payroll deduction.
- This provides a simple and direct way for eligible employees to contribute to an IRA through payroll deduction.
- Enables employee to plan ahead and make small contributions throughout the year.
- Employee decides whether to contribute, and when and how much to contribute (up to certain limits).

Plan Fees and Expenses *(must know)*

- Plan administration fees
- Investment fees
- Individual service fees
- Sales charges and management fees
- 12b-1 fees
- Variable Annuities
  - Insurance related charges
  - Surrender and transfer charges
Where Do WE Go From Here