Retirement Planning for Small Businesses
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In our last blog post, we talked about how much retirement planning has changed over the past several years. For most, gone are the days of company-paid pension plans, as most organizations have transitioned to retirement plans in which the employer, employee or both make contributions on a regular basis.

But what if you are a small business owner with very few or no employees?

Do you have to incur the expense it takes to implement and maintain a 401(k) plan?

What if you want or need to contribute more than the annual Traditional IRA limits to meet your retirement goals?

Small business owners can offer and take advantage of retirement plans with significantly higher contribution limits and tax benefits. Here, I'll focus on four options available to small business owners and their employees.

- **SEP IRA:** A Simplified Employee Pension Individual Retirement Arrangement (SEP IRA) allows a business owner to contribute a portion of the company profits to each employee (and themselves, of course). These contributions are based on a percentage of each employee's earned income. The maximum contribution for 2016 is $53,000 and all contributions grow tax-deferred until they are withdrawn at retirement. All plan contributions can be taken as a tax deduction to the business, thereby lowering taxable income.

- **SIMPLE IRA**: A Savings Incentive Match Plan for Employees (SIMPLE) IRA gives each employee the option to defer a portion of their own salary before tax (up to $12,500 in 2016) into a savings vehicle. Participants over the age of 50 can contribute an additional $3,000 per year. The company owner is then required to match up to 3 percent of the employee's compensation. As with an SEP IRA, the employer contribution is tax-deductible. While the contribution limits are not as high as the SEP, the SIMPLE IRA is a great solution for companies with employees that want to save a portion of their own income for retirement.

- **Individual 401(k):** The Individual 401(k) is designed to help sole proprietors (and their spouses) save more for retirement. Contributions are based on a percentage of income and in 2016, each participant can save up to $53,000 in the plan (those over the age of 50 can contribute an additional $6,000 in 2016). These contributions grow tax-deferred until they are withdrawn for retirement, and a portion of the contributions can be used as a tax deduction for the business. The Individual 401(k) is appropriate for a sole proprietor with no plans to add additional employees. The biggest advantage of the Individual 401(k) over the SEP is that it allows the business owner to reach the maximum contribution level ($50,000) at a lower level of income.

- **Defined Benefit Plan:** Defined Benefit (DB) plans offer business owners the opportunity to save significantly more than they could if using a SEP, SIMPLE or 401k. With a DB plan, the contributions are based on a projected retirement "benefit." In other words, a business owner decides how much income they want at retirement (up to the 2016 benefit maximum of $210,000) and an actuary determines how much is needed to contribute to the plan each year. The DB plan is a great savings tool for a sole proprietor or a business owner with a small number of "rank and file" employees. DB plans can be more costly to implement and administer than other retirement plans and the plan sponsor needs to engage an actuarial firm to create the plan document and calculate the contribution amounts. It is also worth contacting an investment advisor to assist with the management of the portfolio.

As small business owners ourselves, we understand that we all want our businesses to be successful and carry on after we retire, while continuing to be a source of income. However, with proper planning the success of your business does not have to be your only source of funds. To discuss your options, please feel free to contact us at 336.766.0464, or email us at amcgilvary@marzanocapitalgroup.com.

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