

Which retirement plan is right for your business?

Benefit Design

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Choosing a retirement plan for your business can be complicated and time consuming. There are so many choices that it can seem overwhelming to determine which plan will best meet your business's goals and objectives.

With IRA-based plans, for instance, the employer and/or employees contribute directly into individual retirement accounts. These plans are easy to establish and carry relatively low administrative costs; businesses are not required to file plan-related documents with the IRS and employees are responsible for their own investment decisions. However, plan contributions are vested immediately, and participants may not take loans against their accounts.

One client, a small, family-owned contractor with six employees, decided to offer a Simple IRA plan, which allows employees (including the husband and wife co-owners) to contribute up to \$11,500 each, pre-tax, per year. In this case, the company also matched 3 percent of all employee contributions. The Simple IRA is a lower-cost alternative to a 401(k) plan, and it continues to work well for this company.

There are other plans within the IRA family as well, including the SEP-IRA. The SEP-IRA is for business owners who want a simple, lower-cost, employer funded retirement plan. Unlike the Simple IRA, this plan allows contributions of up to 25 percent of compensation on a tax-deductible basis, and the limit per participant is

businesses with cyclical profits since the decision to contribute from year to year is discretionary.

IRA alternatives

Unlike IRA-based plans, qualified plans permit employers to make contributions that are held in a separate trust account and invested until they are distributed to plan participants. Qualified plans typically feature a choice of vesting schedules to reward longer-term employees. Forfeiture of non-vested amounts can be reallocated to the remaining participants or used to reduce future employer contributions. Also, participants can borrow from their plans.

Qualified plans tend to be more costly and cumbersome to administer and require annual government filing and nondiscrimination testing to ensure that highly compensated employees are not favored.

Another client, this one a larger contractor with 75 employees, recently chose to establish a 401(k) plan for employees. The company chose to go with a 401(k) plan because it allows employees to contribute pre-tax dollars through a salary reduction agreement, and it allows the company to make discretionary contributions on a tax-deductible basis – perfect for the cyclical nature of the construction business.

There are several variations of the 401(k) plan, including the Safe Harbor 401(k) Plan, Roth 401(k) Plan, Owner-only 401(k) Plan, and Simple 401(k) Plan.

Other qualified retirement plans include:

- Profit Sharing Plan - An employer-funded retirement plan with more flexibility in plan design than a SEP-IRA, but still allows contributions of as much as 25 percent of compensation on a tax-deductible basis up to the annual dollar limit. Contributions are com-

- Money Purchase Pension Plan - Requires the employer to make fixed annual contributions as a percentage of compensation to the plan. These plans are appropriate for established businesses that are willing and able to handle this type of expense.

- Defined Benefit Plan - For business owners who prefer to provide employees with a predetermined benefit at retirement and/or to maximize plan benefits for older employees or employees with longer service. Again, this type

Retirement plans can benefit employers through improved employee satisfaction and helping to attract the best employees

of plan is more appropriate for established businesses that can support the expense.

In addition to offering employers and employees incentives to save for the future, retirement plans offer employers intangible benefits, such as improved employee satisfaction, and a competitive edge in attracting the best employees to their organizations.

Whether you are considering a plan for the first time or evaluating an existing one, a financial advisor can help you understand the various alternatives and the key elements of the many available options, and ultimately help you select the plan that best meets the goals and objectives of your business. **NHBR**

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