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RETIREMENT PLAN OPTIONS FOR BUSINESS

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A competitive employee benefit package is an essential component for businesses today. These plans allow employers to recognize significant tax advantages and to attract and retain employees. A critical component of any employee benefit package is a well-designed retirement plan. Employers have a broad range of options in order to maximize retirement plan effectiveness and utility. This article provides a brief overview of those options.

TAX BENEFITS

An employer-established qualified retirement plan provides two principal tax advantages: 1) Employer contributions to a qualified plan are deductible to the employer; and 2) Employer contributions on behalf of employees are not taxable to employees until such time as the benefits are actually distributed from the plan.

401(k) PROFIT SHARING PLANS

The 401(k) Profit Sharing Plan is the most well-known type of retirement plan. First, participants have the option to defer a portion of their salary into the 401(k) Profit Sharing Plan. The maximum salary deferral for 2008 is $15,500 for employees under age 50 and $20,500 for employees age 50 or older. The income tax on such deferrals is deferred until the funds are withdrawn.

Second, employers may make tax-deductible contributions to the Plan. Most employers are attracted to 401(k) Plans because the amount of the annual contribution is left to the discretion of the employer. The amount contributed by the employer may differ each year. Overall, annual employer contributions to a profit sharing plan for 2008 are limited to 25% of total compensation or $46,000 per employee, whichever is less.

There are various methods for allocating such employer contributions to participants. For example, with a "cross-tested" plan, employer contributions are allocated on the basis of allocation groups. Depending on the demographics of those employees, it may be possible to target contributions toward business owners and/or specified key employees. By taking the time to assess the various allocation methods, it is possible to achieve a variety of retirement plan objectives.

SOLO 401(k) PLANS

A solo, or individual, 401(k) plan is a 401(k) Profit Sharing Plan for an owner who is the sole employee in a business. In 2008, the employer can contribute up to 25% of the owner's compensation, and the owner may defer up to $15,500 ($20,500, if age 50 or older) from his or her wages. The overall maximum contribution for the owner is $46,000 ($51,000 if age 50 or older). If you are the sole owner/employee in your business, please ask us to discuss this option further in order to explain the advantages of this type of plan.

DEFINED BENEFIT PLANS

A Defined Benefit Plan is a more complicated type of retirement plan that provides a specific benefit to each employee at retirement. This specific benefit is sometimes expressed as a certain percentage of each employee's final average compensation multiplied by his or her years of service. The employer then contributes an annual amount that is actuarially calculated to be necessary to fund that defined benefit at retirement. Such annual contributions are not discretionary. The primary benefit of Defined Benefit Plans is the ability to fund the plan at levels higher than allowed under other types of retirement plans.

SIMPLE IRAS

Under a SIMPLE IRA plan, an employee can elect to have a portion of his or her salary, up to $10,500 in 2008, contributed to the employee's account. Employees who are age 50 or older may contribute an additional "catch up" amount of $2,500. The employer contribution to the SIMPLE IRA is limited to either matching deferrals up to 3% of each employee's compensation, or contributing 2% of compensation on behalf of each employee.

SEP PLANS

A SEP IRA plan provides for contributions to be made to individual accounts set up for all eligible employees. Employer contributions are discretionary up to the lesser of 25% of the employee's compensation, or $46,000 in 2008. The same percentage must be contributed for each eligible employee. Salary deferrals may not be made to a SEP IRA.

IRA

An IRA is a private retirement account created by any owner or employee. An IRA can be funded with tax-free "rollovers" from other types of plans; or with annual, voluntary tax-deductible contributions by the participant. These contributions are limited to $5,000 in 2008, with an additional $1,000 that can be contributed by participants who are age 50 or older.

ROTH IRA

A "Roth IRA" differs from the traditional IRA in that contributions to the Roth IRA are not deductible. Distributions from the account, however, may generally be received free of federal income tax. The ability to contribute to a Roth IRA begins to phase out for single taxpayers with an adjusted gross income of $101,000 and for a married taxpayer filing a joint return with an adjusted gross income of $159,000.

CONCLUSION

As you can see, there are a variety of retirement plan options. An analysis of those options is the best way of determining the most efficient plan design. We can perform such an analysis for you if desired. Please contact our Pension Attorney, Shelly Strong Jamieson, for an employee census sheet. We look forward to assisting you with the design and implementation of the retirement plan best suited for you and your business.