

Small Business Owner's Retirement Option Overload

Too many choices can be as frustrating as too few. A financial professional can help you find the right retirement plan for your small business.

Establishing a retirement plan for yourself and your employees can help you attract and retain workers and give you personal and business tax deductions. Yet you haven't taken the final step to create a plan, because every time you look at that alphabet soup of choices – SEP IRA, SIMPLE IRA, 401(k), SE 401(k) – you become overwhelmed by the options and translating their impact into real life for your business.

Then there are the costs and responsibility involved. About a third of small business owners cite revenue uncertainty as the biggest obstacle to establishing a retirement plan, according to the Employee Benefit Research Institute. Costs ranked second, at 16 percent.

Yet of those small businesses that do create a plan, two-thirds do so to positively effect employee attitude and performance. Other reasons include creating a competitive edge in recruiting and retaining workers and tax advantages for employees, key executives, the owner and the business.

Most retirement plans fall into three general categories: Individual Retirement Arrangements, defined contribution plans and defined benefit plans. Defined benefit plans commit the employer to providing a specified benefit to retirees, often based on a percentage of pay and the number of years the individual worked for the business. Most small businesses can't carry the burden of such arrangements and opt instead for one of the other two types.

An IRA typically exists outside the employment relationship; in other words, the employer does not fund or contribute to the accounts and does not dictate when an employee can contribute or how much. IRAs do offer tax benefits for employees who contribute to them, and employers can encourage those contributions by offering payroll deduction.

A SIMPLE IRA, however, does require employer contributions. The business must have 100 or fewer employees. As the name implies, these plans are relatively easy and low cost to establish and maintain. Employees decide how funds will be invested and can retain the account when they change jobs. The employer can decide to have all employees' accounts at the same financial institution or can let each employee decide for himself.

401(k) Plans have become a widely used retirement vehicle, with more than 42 million employees holding about \$1.9 trillion in plan accounts in the U.S. Employees choose how much to defer, and that amount and associated earnings are not taxed until distributed. A Safe Harbor 401(k) eliminates the fairness tests normally applied to 401(k) plans by the IRS and mandates 100 percent vesting in employer contributions.

Additional types of plans, such as Keogh, solo defined benefit and solo 401(k), exist for self-employed individuals who have no employees. Obligations, limitations and tax consequences vary with each.

With all those options, no wonder so many small business owners become immobilized with indecision. A financial professional can help you first evaluate what you hope to accomplish in offering a plan: tax advantages for yourself, employee incentives, recruiting advantages, helping employees prepare for their future or another reason. When your purposes have been determined,

you and your financial professional – perhaps in conjunction with your tax and legal advisors – can decide which plan will best help you achieve those results.

So if you haven't set up a retirement plan for your business – or if your business has grown or changed and you want to revisit your plan to ensure it still achieves what you intended – take the first step and contact your financial professional. You don't have to eat that alphabet soup alone.

Sources:

Employee Benefit Research Institute, 2003 Small Employers Retirement Survey. This is the most current survey available from EBRI.

"Choosing A Retirement Solution For Your Small Business" pamphlet from the U.S. Labor Department and the Internal Revenue Service, 2005.

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