THE WHITE PAPER

Your Guide to Life Planning

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Which Retirement Plan Is Right for You and Your Employees?

As a business owner, you understand the importance of attracting and retaining key employees. One of the best ways to ensure your employees are satisfied with their jobs is by crafting an appealing benefits package, including a retirement plan. There are many retirement plan choices available to you. Here is a summary of some of those options.

Defined benefit (pension) plans

While these "traditional" retirement programs are a dying breed in plans for large firms, a defined benefit (DB) plan could be just the ticket for a small shop. With a DB plan, an employee's annual retirement benefit is determined by the plan's benefit formula, generally based on tenure and pay. The maximum annual benefit allowed at retirement is the lesser of $210,000 (in 2014) or 100% of final average pay.

Defined benefit plans are the most complex to set up and operate. An actuary has to certify annually the amount the employer must contribute to the plan. The plan has to file an annual return and meet annual nondiscrimination testing standards among eligible plan participants.

SEP-IRAs

A Simplified Employee Pension plan (SEP-IRA) may be ideal for a one-person business or a business with just a few employees. It is relatively inexpensive and easy to start and administer. As with a DB plan, the employer -- not the employees -- contributes to a SEP-IRA. Employees are immediately vested, and each employee decides how his or her money is to be invested.

Although there are some exceptions, in general, a SEP-IRA must cover any employee who is 21 or older, has earned at least $550 from the business, and has worked there during at least three of the preceding five years.

In 2014, the annual contribution limit for each employee is 25% of compensation (or, for the self-employed, net earnings) or $52,000, whichever is less. SEP-IRAs also offer small-business owners flexibility regarding both the amount and timing of contributions. As a result, a SEP-IRA may make sense for a business with profits that tend to fluctuate from year to year.

SIMPLE IRAs

The Savings Incentive Match Plan for Employees (SIMPLE IRA) is also valued for its ease of administration and is available to businesses with 100 or fewer employees. A "matching" SIMPLE IRA plan allows employees to contribute up to $12,000 of salary in 2014. The employer must then make a matching contribution of up to 3% of each worker's annual compensation, but the employer has the right to match as little as 1% in two out of any five consecutive years.

The other method for funding a SIMPLE IRA requires the employer to make nonelective contributions equal to 2% of compensation for each worker who has earned at least $5,000 during the year, whether or not a worker has elected to contribute income to the plan.

401(k)s

A 401(k) plan allows eligible employees to make pre-tax deferrals. Participants decide how much money to contribute to their individual accounts and how to manage their investments up to and throughout retirement. The employer has the option of making matching contributions that can vest immediately or over a graded or cliff schedule.

Part of the appeal of a 401(k) is the fact that assets are highly portable, meaning that participants can easily transfer balances to other qualified retirement accounts when changing jobs. Participants may contribute up to $17,500 for 2014 -- those aged 50 and over can add another $5,500. Total contributions to an individual's account cannot exceed $52,000 or 100% of compensation, whichever is less.

Roth 401(k)s

The difference between a Roth 401(k) and a traditional 401(k) is that the Roth version is funded with after-tax dollars while the traditional 401(k) is funded with pre-tax dollars. An employer may decide to offer both types of accounts. As with a traditional 401(k), participants may contribute up to $17,500 for 2014 -- those aged 50 and over can add another $5,500.

For more information on suitable retirement programs for your business, contact your financial professional.

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